

# The financial skills shortage in South Africa's public sector

## an institutional contribution towards a long-term solution

### A Position Paper



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#### EXECUTIVE SUMMARY

Although South Africa's public sector generally experiences skills shortages at many levels, the financial sector is particularly adversely affected.

Whilst the private sector has in operation a highly effective system to ensure a constant supply of financial skills, no such system has to date been implemented for the public sector.

In this Position Paper the Southern African Institute of Government Auditors (SAIGA) presents a **Financial Skills Development Model for the public sector**. This model must be seen against the background of initiatives such as the Joint Initiative on Priority Skills Acquisition (JIPSA) and the broader objectives of the Accelerated and Shared Growth Initiative of South Africa (ASGISA).

To address the public sector financial skills shortage, SAIGA has developed a unique public sector professional: the Registered Government Auditor (RGA). The syllabus of the RGA is public sector focused and incorporates concepts and approaches based on the PFMA, MFMA and the *Treasury Regulations*.

Wider recognition of the RGA by specific role-players and the integration of the RGA concept in strategic approaches by specific public sector entities and universities will provide a continued long term supply of financially skilled professionals to the public sector.

This is exactly what South Africa needs.

## **The severity of the South African skills shortage**

During his State of the Nation address on 3 February 2006, South Africa's President, Mr Thabo Mbeki, was emphatic in emphasising the fact that a shortage of skills is amongst the most critical issues facing South Africa, and requires urgent attention.

Referring to the Accelerated and Shared Growth Initiative of South Africa (ASGISA) the President warned that in order to meet the ASGISA objectives, South Africa will have to pay particular attention to the issue of scarce skills, the shortage of which will negatively affect the capacity of both the public and the private sectors to meet the goals set by ASGISA.

Numerous strategic and highly prioritised actions have been, and are being launched by government to address this problem. These include the formation of JIPSA, the Joint Initiative on Priority Skills Acquisition, through which government, business, labour and civil society will act jointly to respond to the challenges of the skills shortage in as practical a manner as possible.

The President's message has underlined similar comments made by other government officials (including the Minister of Finance during his Budget Speech), business leaders and other stakeholders.

It is clear that all concerned citizens and institutional stakeholders have a responsibility to contribute to finding a solution to the South African skills shortage.

## **The financial skills shortage**

Although South Africa generally experiences skills shortages at many levels, certain industries and sectors are particularly adversely affected.

The promulgation of the *Public Finance Management Act* (PFMA) and the *Municipal Finance Management Act* (MFMA) and related regulations have effected a paradigm shift away from administration to *management* and *performance management* in particular. The new legislation has taken public sector accountability to new levels and highly specialised skills are needed to implement these far-reaching reforms. Public sector entities (at all levels of government) now prepare annual financial statements; implement international accounting standards specifically developed for the public sector (Generally Recognised Accounting Practices – GRAP); manage according to predetermined, measurable objectives and report on their performance; carry out risk assessments as a matter of routine, and operate highly sophisticated governance structures such as internal audit functions and audit committees – to mention but a few.

It is not difficult to realise that these reforms are posing massive challenges in the public sector to train staff and develop financial skills.

National Treasury has, for some years now, been conscious of this problem and has launched numerous initiatives to develop financial skills in the public sector. The latest initiative involves a project rolled out in cooperation with the South African Management Development Institute (SAMDI) and other providers of short courses in financial management.

## **Solving the financial skills shortage – the private sector example**

For many decades, South Africa's *private* sector has assured itself of a constant supply of financial skills through a simple, yet effective system.

This system has provided South Africa's business sector with the necessary financial skills and not even the so-called "brain-drain" of accounting and auditing professionals to other countries has been able to create any significant disturbances over the years. In fact, our country's private sector might even be experiencing some measure of oversupply of highly skilled financial persons (for example, chartered accountants). The fact that the major auditing firms are currently profiting greatly from "exporting" financial knowledge (newly qualified CAs) to other countries supports this contention.

The private sector system is relatively straightforward:

### *Phase one: Universities:*

South African universities are finding the training of chartered accountants (CAs) highly profitable and virtually every South African university has a specialist unit for the training of CAs. The South African Institute of Chartered Accountants (SAICA) "accredits" only those universities that incorporate all aspects of the SAICA syllabus into their learning programmes, thereby ensuring that these institutions of learning act as the SAICA's training agents. This is done with the added benefit of state subsidies to the universities. Regular quality controls by the SAICA to universities (visits and other forms of evaluations) are carried out to ensure compliance with the SAICA syllabus.

Since the adoption of the SAICA syllabus greatly simplifies otherwise complicated educational processes, and since it virtually eliminates expensive activities such as research, post graduate accountancy class sizes can exceed normal university standards by far (post graduate classes in excess of 100/150 are highly uncommon in other disciplines, but the norm at many accredited universities' accountancy departments). The result: no university can afford to be without it; the SAICA syllabus is strictly adhered to and as an added benefit, young professionals – CAs (as opposed to seasoned academics) are able to present the university classes.

### *Phase two: the auditing firms:*

The actual practical training of these upcoming financial specialists is carried out by the auditing firms, who employ the young graduates. Although the auditing firms provide the practical training, the system also presents great benefits to these firms. The SAICA requires a trainee accountant to serve a minimum three-year training contract. Trainees that want to qualify as auditors therefore have to work for three years at an audit firm and the rules of traineeship are not based on principles of mobility or flexibility. Practical experience that those trainees may have acquired in a financial or auditing field prior to signing the SAICA training contract, is, for example, not recognised – neither is practical training acquired through other accounting or auditing institutes' programmes. During the contractual period the trainee accountant is therefore strictly bound and the salary discounted accordingly. This is where the audit firms derive their benefit from. They have the discounted services of trainees for a period of three years.

After completion of the three year contractual period, few trainees actually stay with the audit firms. They move on to commerce and industry, providing the final link in the supply chain of financially skilled people to the business sector.

*Phase three: the business (private) sector:*

Although from time to time, business complains about the lack of experienced audit staff being used by the audit firms, and the constantly increasing audit fees, these voices are never really raised too loudly as businesses realise that this is actually their contribution to the system. They are indeed the final recipient of the system's products – qualified and fairly experienced chartered accountants pursuing their careers into business. This completes the supply link.

### **Added public sector dilemmas**

The above concise outline of the private sector financial skills supply model shows just how efficient and effective it is. There are virtually no benefits for the public sector. Chartered accountants (taking into account the SAICA-prescribed syllabus) are not specifically educated/trained for the public sector environment. Conspicuous by their absence from the SAICA syllabus, for example, are basic Acts such as the PFMA and MFMA, and concepts such as GRAP and GAMAP. Also not included are performance auditing and the most basic knowledge of the public sector.

Financial reforms in the public sector (referred to earlier in this document) have furthermore transformed the public sector into a specialist field, where the mere application of generic financial knowledge (irrespective of which level) is no longer sufficient.

In view of the above, the public sector has only one option: to “grow its own timber”. But the private sector does not easily permit such development processes. Given the fact that public sector financial knowledge and skills are scarce, the private sector is constantly on the hunt to employ persons with public sector skills, who will supply them with the needed capacity to offer consulting services to the public sector. So, effectively, a large percentage of the persons that have been trained in the public sector, are leaving, only to return their services to the public sector at expensive consultation fee scales.

The above mentioned scenario is further fuelled by the fact that this exercise not only saves them (the private sector) big training expenses (now carried by the public sector), but it also allows the private sector financial services providers to improve their BEE-quotas.

### **How to turn the tide**

The above scenario clearly shows that a long-term solution must be found for the public sector and implemented.

The Southern African Institute of Government Auditors (SAIGA) is proposing such a solution.

## **The Southern African Institute of Government Auditors: Giving birth to the RGA**

For the past number of years the Southern African Institute of Government Auditors (SAIGA) has been doing the groundwork that could allow a **public sector** Financial Skills Development Model (FSDM) to emerge. The time has now arrived for other role-players to actively contribute to developing and implementing this model.

Starting in 1997, SAIGA underwent a strategic repositioning project. From this project a number of critical stepping stones emerged:

- The generic description *government auditor* was transformed into a specific designation and qualification: the *Registered Government Auditor* was given a professional identity.
- A solid *educational basis* was developed for the *Registered Government Auditor* (RGA).
- A specific and detailed *Common Body of Knowledge and Skills* (COBOKS) for Registered Government Auditors was formulated, in consultation with a number of strategic role-players
- The Registered Government Auditor (RGA) designation / qualification was developed to match the private sector's Registered Accountant & Auditor (or the CA that followed the auditing route) – except for the fact that the RGA qualification / designation was specifically designed to meet public sector demands and challenges.
- The RGA professional qualification / designation was registered with both the South African Qualifications Authority (SAQA), and as a collective Trade Mark, with the Registrar of Trademarks.
- The COBOKS for RGAs was, in 2005, further reviewed and updated and is now designed to specifically focus on issues and approaches contained in the PFMA, MFMA, *Treasury Regulations*, and public sector accounting and auditing standards.
- Universities (specifically their Faculties of Accounting, Auditing and Management Sciences) were informed about the COBOKS for RGAs.
- The Auditor-General, as the major employer of RGAs was also involved, and efforts were made to obtain formal recognition of the RGA qualification by the Auditor-General.
- In July 2003, the Auditor-General recognised the RGA qualification as one of four professional accounting and auditing qualifications in the Office (RGA, CA [SA], ACCA & CISA).

## Unique qualities of the RGA

The possession of the following competencies shows what a valuable professional the RGA is not only in government auditing but also in national & provincial departments, local authorities, public entity and the public sector in general:

- ✓ The COBOKS for RGAs encompasses both GRAP and GAAP; the PFMA; MFMA; the *Treasury Regulations*, and specific public sector topics (for example, performance management, performance reporting and performance auditing).
- ✓ The COBOKS for RGAs requires candidates to serve four years of practical experience *in the public sector auditing environment*. This exceeds the normal practical training requirements by private sector professional bodies by a full year.
- ✓ As in all highly recognised accounting professions, RGAs also have to pass a professional Qualifying Examination (the RGA-QE). Notably, the RGA-QE focuses on public sector topics.
- ✓ Continuing professional development is compulsory for RGAs and is monitored by the Southern African Institute of Government Auditors.

## The future role of SA universities

The situation that South African universities to a large extent concentrate on the training of *private* sector accountants whilst receiving huge subsidies from government, cannot continue unchallenged.

Universities must be called upon to discharge their social responsibilities by also offering programmes that address public sector accounting (GRAP), and PFMA related concepts.

The publication of a formal COBOKS for RGAs now allows universities to integrate the public sector accounting and auditing requirements into their programmes in an educationally justifiable manner. The need for these skills is no longer a debatable issue: the universities have a duty to respond.

## The role of the Auditor-General

(Note: in terms of the new Public Audit Act, the *Office* of the Auditor-General is now only referred to as: *the Auditor-General*)

The Auditor-General can be seen as South Africa's largest auditing firm. During the last decade the Auditor-General put into practice a long-term programme to professionalise the Office and to adopt and implement more scientific techniques and procedures.

According to the 2004/5 annual financial statements, the Auditor-General contracted *in* private sector auditing firms, paying them a total amount that represents about 30% of the Auditor-General's fees (R173 Million). This represents a substantial benefit for the

private sector auditing firms. The Auditor-General's annual report, however, gives little information to indicate how the audit firms that benefited from this arrangement, contributed towards alleviating the shortage of financial skills in the public sector.

It seems that the Auditor-General's dependence on the private sector audit industry is in fact steadily increasing (from R35 Million in the middle and late 1990s to R109 Million in 2001 and to R173 Million in 2004/5) and the extent of the current levels of contract work indicates that the Auditor-General may actually not be capable of performing its constitutional mandate without the assistance of private sector audit firms.

This factor alone poses a major threat to the Auditor-General's independence. This public sector dependence, that cannot be alleviated over the short term, also gives the private sector auditing industry a major advantage in fee negotiations and contributes to the Auditor-General's spiralling audit fees. Unfortunately, warnings to this effect by Southern African Institute of Government Auditors (SAIGA) were ignored and the privileged position of the private sector auditing firms is now enshrined in the Public Audit Act.

SAICA has accredited the Auditor-General as a training office for chartered accountants and in terms of this arrangement, the Auditor-General is currently employing a number of trainee chartered accountants. It does, however, seem that only a few of these prospective chartered accountants that are allowed to serve their traineeship with the Auditor-General, are likely to remain in the Office after the completion of their training. With a few exceptions, chartered accountants sooner, rather than later, leave the Auditor-General to pursue their careers in the private sector – the 2004/5 annual report of the Auditor-General makes specific mention of the high turnover of chartered accountants. In general, the public sector does not seem to be able to retain chartered accountants.

As explained, the private sector financial skills model therefore also uses the Auditor-General to achieve higher returns. The Auditor-General is employing and training prospective candidates that initially have little knowledge of the public sector (refer to comments made regarding the private sector orientated university syllabi), only to lose most of these (now public sector educated) professionals to the private sector after the completion of training.

Again, the public sector is the loser.

It should be evident that this situation needs to be addressed.

## Implementing the Public Sector Financial Skills Model

*If the proposed public sector Financial Skills Development Model (FSDM) is correctly implemented and applied, it will not only result in increasing the independence of the Auditor-General, but it will also provide a continued long term supply of financially skilled professionals to the public sector. This is exactly what South Africa needs.*

A number of critical events have to be realized:

- 1 Public sector structures, the National Treasury and the Department of Public Service & Administration in particular, need to recognise the RGA as the highest professional accounting qualification and designation in South Africa's public sector. Financial rewards have to be linked to this recognition.
- 2 More universities need to accept their social responsibilities and respond to the needs of South Africa's *public sector*, by also offering programmes that incorporate specific *public sector* accounting and auditing knowledge.
- 3 The development and employment of RGAs and those studying to become RGAs needs to be accelerated by the Auditor-General and the broader public sector. The recognition of RGAs by the Auditor-General and the broader public sector needs to be taken to the next level:
  - RGAs must be identified as preferred applicants for posts in the Auditor-General's office and the broader public sector.
  - The Auditor-General should be committed to achieving employment targets for RGAs and this should be a major performance measurement criteria for the Auditor-General .
  - The unique knowledge and skills of RGAs must be financially rewarded - no other auditing professional possesses the specific public sector skills that RGAs do.
  - In awarding contract work to private sector audit firms, preference must be given to those firms that have qualified RGAs in their staff component. The possession of RGA qualifications should be the major criteria in awarding contract work to private sector auditing firms.
  - The development of RGA potential must reflect in the granting of bursaries and other incentives by the Auditor-General and the broader public sector. Potential RGAs should be clearly preferred over applicants who merely wish to qualify as accountants.
  - The Auditor-General should be more focused on the uniqueness of the Registered Government Auditor. Wider recognition and support of this unique public sector professional will accomplish the implementation of the public sector Financial Skills Development Model (FSDM) and give impetus to the supply of highly skilled Registered Government Auditors not only to the Auditor-General but also to the broader public sector.

### ***Modus operandi***

This Financial Skills Development Model for the public sector (FSDM) must be seen against the background of initiatives such as the Joint Initiative on Priority Skills Acquisition (JIPSA) and the broader objectives of the Accelerated and Shared Growth Initiative of South Africa (ASGISA).

The Southern African Institute of Government Auditors is presenting this Position Paper to the country in an effort to constructively contribute towards solving the financial skills shortage in the public sector.

The Institute welcomes debate on ways to implement the FSDM and thereby accelerate the supply of highly skilled financial professionals for South Africa's public sector.

The Institute's office bearers are willing to discuss this model with interested and affected parties.

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