



AUDITOR-GENERAL
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Auditor-general reports significant faults in procurement and contract management processes of covid-19 relief package

PRETORIA – Auditor-General (AG) Tsakani Maluleke today reported significant deficiencies in the procurement and contract management processes of the relief package government redirected in response to the covid-19, but applauded government's ongoing efforts in fighting the pandemic.

Government has done well to fight the pandemic

Releasing the national audit office's second real-time audit report on government's covid-19 expenditure, the AG acknowledged that in response to the pandemic government had to react quickly and decisively in uncertain times and in an already compromised control environment. However, she believes the country "could have achieved more if the funds and related initiatives had been managed better".

Maluleke describes the report as "an opportunity to learn from what played out and use it to strengthen government's service offerings to the citizens of the country in the longer run".

Makwetu's final good governance message

The latest report would have been the last audit report of the late AG Kimi Makwetu before leaving office. His fixed term as AG would have ended on 30 November 2020, were it not for his untimely death on 11 November.

Maluleke, whose seven-year fixed term as head of the country's supreme audit institution started last week (1 December), says her office dedicates the report to Makwetu "as he passed on while making the final touches on what last governance messages he wanted to share with the country through this report before he left office. As such, in releasing it today, we have become his mouthpiece – conveying the final wisdom and patriotic counsel he left for our country".

Some effort made, but significant governance lapses still prevalent

In its first covid-19 report, released in September, the Auditor-General of South Africa (AGSA) lamented the weak government control environment in which the relief funds had landed.

Maluleke says the government's response to her office's first special report was very positive and it was "commendable that most accounting officers and executive authorities took action to address our findings, implement the recommendations and, in some cases, even took disciplinary steps". However, she recognised that some of the fixes will take time to address the underlying root causes of what we reported on.

What was audited

After the outbreak of covid-19, the government announced a R500 billion package for the health response and to relieve the social and economic distress caused by the drastic measures that had to be taken to contain the spread of the virus.

At the request of the president, Cyril Ramaphosa, Maluleke's office undertook to audit the scoped-in covid-19 initiatives and spending as they occur.

After releasing its first report in September, the AGSA's team of forensic auditors, information system auditors, data analysts, performance auditors and financial auditors continued – in a coordinated effort – to audit government spending related to the relief package.

Maluleke says while the latest report targets those charged with governance, administration and oversight, her office will also share the information with the fusion centre set up by government to further investigate suspected covid-19 malpractice. “We have already shared the information from the first report with the centre and will also provide them with the information they need from this latest report,” she explains. The AG adds that the third special covid-19 report, planned for release in mid-2021, will have a local government focus.

Focus of the latest report

The AG’s latest report includes an update on the expenditure of the relief funds and the actions taken in response to the first special report, covering these key areas:

- Support to vulnerable households
- Wage protection
- Healthcare services
- Defence frontline services
- Basic education interventions
- Quarantine sites
- Farmers’ relief
- Expanded public works programme
- Sport, arts and culture social relief fund
- Tourism relief fund
- Emergency supply of water to targeted communities.

The report also includes a brief update on:

- Support to municipalities
- Compensation for occupationally incurred covid-19
- Loans through the Industrial Development Corporation
- Temporary residential units
- Support to small businesses

The AG notes that her office “will continue auditing the covid-19 funding and follow up on the progress made in addressing our findings from this report as part of our normal annual audit. We will also identify material irregularities from this process and commence with the required processes as stipulated in the enhanced powers given to the AG by Parliament”.

Outcomes of the audit process

Summarising the outcomes of the AGSA's latest covid-19 report, Maluleke says "the first special report highlighted irregularities, poor controls and systems, and indicators of potential fraud. Our latest report does the same".

Noting the unique circumstances in which government found itself, as well as its already compromised control environment and the limited time it had to put in place preventative controls and systems to address these, the AG says government's quick actions and responses should be commended, as they "enabled the provision of additional hospital beds, medical equipment, medicines and quarantine sites, as well as community screening, testing and awareness programmes. It also paid for personal protective equipment for health facilities, schools and frontline workers, and for the emergency supply of water to communities and schools. Millions of vulnerable households were supported through grants, and unemployed people and businesses that struggled to continue during the lockdown period received funding to keep them afloat".

The AG reports that R95,84 billion (65%) of the R148,06 billion her office is auditing had been spent by 30 September 2020 as per the accounting records of those they audit (auditees). She says most initiatives were completed or close to completion; while some have been abandoned or redirected.

The AGSA's latest report lists the following as some key observations and findings:

Overall observations

In the report, the audit office again reports that the information technology systems, processes and controls used in government were not agile enough to respond to the changes required.

The lack of validation, integration and sharing of data across government platforms resulted in people (including government officials) receiving benefits and grants to which they were not entitled.

Some of the initiatives did not achieve the desired results and were even abandoned because of failed coordination, monitoring and relationships across the three spheres of government. Where implementing agents were involved, we found weaknesses in

coordination and monitoring which compromised delivery, transparency and accountability.

A. Payment of temporary employee/employer relief scheme (Ters) benefits and various social grants

In its first special report, the audit office reported various incorrect Ters payments made and flagged a high number of payments that required further investigation. These payments included payouts to people who are below the legal age of employment, deceased, working in government, receiving social grants, or receiving other Unemployment Insurance Fund (UIF) benefits.

Key findings on the payment of Ters benefits

Maluleke says the UIF is using the first report as a critical tool to reflect on its overall control environment and identify areas for improvement. The AG notes that “it is encouraging to note that, as at October 2020, the fund has recovered about R3,4 billion of funds that may have been disbursed incorrectly”.

“Progress has been made in addressing the previously identified system weaknesses, such as a lack of validations and incorrect calculation. However, since most of these enhancements were made during September, we still identified payments that will need to be investigated, although there are far fewer.

The AG explains that because the UIF depends on the accuracy of the declarations and information submitted by the claimants (bargaining councils or employers), this exposes the fund to the risk of paying fraudulent claims. This risk, says Maluleke, was increased by the Ters benefit coverage being expanded to include employees who were not registered with the fund before the covid-19 pandemic.

To respond to this exposure, the fund designed post-validation processes to verify the claims paid out. However, the AG reports that, as at the date of her report, this process, which includes the verification of employer and employee employment information, had not yet started.

“Another risk reported was the possibility of the benefit being trapped at the level of employer or bargaining council and not reaching the intended employees. From May 2020, the fund also introduced direct payments to employees’ bank accounts, although

the claim application would still need to be submitted by the employer," explains the AG.

Key findings on the payment of social grants

In its previous report, the AGSA had reported that the South African Social Security Agency's (Sassa's) outdated, limited databases and inadequate verification controls resulted in people who were not in distress receiving the social relief of distress grant, while those who were in distress were sometimes unfairly rejected.

Maluleke reports that in response to these findings, the agency stopped the payment of grants to the flagged people who could also be receiving income from other sources until they can prove they are entitled to the grant.

The AG further notes that Sassa "is also taking a conservative approach when evaluating applications for the grant - if a discrepancy is identified, the application is rejected and only if the applicant queries the rejection and provides proof of eligibility will the grant be activated or re-instated".

The AG's report also highlights these findings:

- On average, one third of the applications are rejected each month.
 - The AGSA confirmed that by end of August, 0,92 million of the 2,95 million rejections had been approved and the beneficiaries had received the grants, backdated from the date from which they were entitled to it.
- Although Sassa had embarked on a project to improve beneficiary validation, this has not yet borne fruit and the auditors continued to identify beneficiaries that are potentially also receiving income from other sources.
 - These sources include government pensions, social grants, UIF payments, national student financial aid scheme bursaries and benefits from other covid-19 relief funds.
 - By 31 August 2020, the AGSA had identified a total of 67 770 beneficiaries potentially receiving income from these sources, which represents 0,32% of the approved applications.
 - The auditors also reported 1 513 beneficiaries who are directors of companies that have government contracts for investigation.

- According to Sassa, all the flagged beneficiaries are currently being investigated and planning is underway for an appropriate debt recovery process.
- The manual tasks for the top-up grants have been automated, and the change control procedures and guidelines have been amended to incorporate emergency processes.
 - The implementation of these controls prevented the recurrence of the over- and underpayments made in May 2020.

B. Relief of economic and social distress

In addition to the TERS benefits and social grants aimed at easing the hardship experienced by individuals, households and businesses, the government had also identified a number of other relief initiatives. Below are some of these key initiatives that were selected for auditing, with auditors' findings:

Farmers' relief

The Department of Agriculture, Land Reform and Rural Development provided relief for 15 513 financially distressed small-scale farmers in the form of vouchers for production input. The final date to redeem these vouchers was extended to 31 December 2020.

In its first special report, the audit office raised a number of concerns about the fairness of the application process and the selection of the suppliers used to redeem the vouchers, as well as inadequate record keeping and voucher reconciliation.

The AG says it is encouraging that the department is re-evaluating all rejected applications based on the initial audit findings. However, Maluleke was quick to point that "the commitments made to address the weaknesses we identified were not adequately and timeously implemented".

Among other observations and findings, the AGSA reported the following:

- By comparing the beneficiary information against databases of the agriculture portfolio and other public sector institutions, auditors flagged beneficiaries whose eligibility for the relief should be investigated.

- These include government employees, farmers who receive support from other agricultural support programmes and those who received other relief such as the temporary employee/employer relief scheme and social grants payments.
- The AGSA was not able to obtain sufficient evidence that the applications were received before the closing date.
- Auditors identified some instances of beneficiaries not being scored correctly during the evaluation process, as also reported in the first special report.
- The provinces were inconsistent in how they determined the value of the vouchers as clear guidelines were not provided.
 - Through site visits in five of the provinces, auditors identified that officials did not perform all the required inspections at the farms to verify the information provided by the farmers and how the vouchers were used.
 - The AGSA also identified various control deficiencies in the payment, recording and reconciliation processes, and our audit efforts were delayed by information and documentation that was not provided.

Tourism relief fund

The relief fund to support small, medium and micro enterprises in the tourism and hospitality industry had been paid out in full to 4 000 of the 7 291 applicants by 11 August 2020.

In its first report, the AGSA had reported on the risks created by the amendments to the original criteria and process for determining which applicants qualify for relief, the inadequate review processes and the potential for human error.

In auditing the application, approval and payment processes, we determined that these risks had materialised.

- The original criteria comprised a scoring system, which was changed to a first come, first served basis based on the sequence in which the applications were received. In the end, the applicants were approved based on the supporting documents they submitted. However, due to poor record keeping, the Department of Tourism could not provide the auditors with the supporting documents for some of the approved applications.
- Auditors also identified weaknesses in the verification of the validity of the supporting documents and the review processes, as evidenced by expired tax

certificates, some beneficiaries not being in business as per the Companies and Intellectual Property Commission, changes in banking information and a duplicate payment made to a beneficiary.

- The directors of some of the businesses that were beneficiaries of the fund are also state employees. However, the department maintained that such relationships would not disqualify an applicant from receiving funds.

Sport, arts and culture relief fund

The distribution from the relief fund remained slow, with only 34% having been paid out by the end of September 2020. The payments went to assist artists, athletes and technical personnel affected by cancellation and postponement of sport and arts events and to fund digital solutions.

In the first report, the AGSA reported that the criteria used to evaluate applications were not specific enough to prevent disbursement to people with other sources of income, including relief from other funds. The criteria were subsequently clarified, but mechanisms were not in place to prevent such disbursements.

- The auditors identified 286 beneficiaries of the fund who potentially also benefitted from TERS payments, the social relief of distress grant and government pensions, or who were government employees.
- Design deficiencies in the system used to capture applications resulted in duplicate payments being made to 72 beneficiaries and applications being processed with key information not being captured.
 - Inadequate validations by the system and a lack of reconciliations further increased the likelihood of invalid or inaccurate disbursements.
- The AGSA also identified weaknesses in the procurement process for digital solution services and the appointment and management of the payment agencies that support the implementation of the initiative.

Food parcels distributed by Sassa

Maluleke says the further audit work her office performed amplified the concerns raised in the first special report on the distribution of food parcels by Sassa. These include:

- Inadequate planning, record keeping and guidelines resulted in inconsistencies in the delivery of food parcels, including people receiving food parcels multiple

times, grant recipients also receiving food parcels and approved beneficiaries not receiving food parcels.

- The lack of documentation and reconciliations also exposed the scheme to the risk of abuse.
- In the first report, auditors reported that the distribution process could have been significantly cheaper if the agency had used the non-profit organisations used by the Department of Social Development instead of appointing service providers.
- An audit of the procurement process to appoint these service providers identified a number of weaknesses, as well as indicators of collusive bidding, which Sassa undertook to investigate.
 - The agency has since cancelled the appointment process and this method of relief will not continue in future.

C. Personal protective equipment (PPE)

Maluleke reports that the bulk of the government's procurement of PPE is taking place in the health and education sectors, with an estimated R4,6 billion spent by 30 September.

She said her office had deployed a multidisciplinary team of financial, forensic and IT auditors; as well as health experts, to audit the entire PPE process nationally and provincially. Such audits covered the entire PPE procurement and distribution process, from determining the need for PPE, to the procurement and payment process, and the recording, storage and distribution of PPE items. The auditors also paid attention to the quality of the PPE delivered.

The AG says they “did not audit all of the PPE procured or visit all the sites where PPE was stored and delivered. Instead, we selected a sample of contracts and transactions, focusing on those that displayed certain risk indicators, and visited a selection of sites that we deemed to be representative”.

For its latest report, the AGSA audited the procurement and payment process, which was completed before the previous report, and at provinces and sites on which it did not previously report.

“During the audit for this report, we had improved access to the information we required in this area, but we continued to have difficulty obtaining sufficient and appropriate documents to audit some of the procurement processes in the health sector as

management prioritised the work in response to the pandemic and therefore did not respond in good time," explains the AG.

Procurement process

The key findings on PPE are:

- In both the health and education sectors, the auditors continued to find instances where competitive processes were not followed, resulting in the contract being awarded to a specific supplier or group of suppliers without the necessary motivation or approval for such deviations.
- Through the National Treasury instruction notes, it was made clear that the standing requirement to favour local producers must be applied. The auditors did not see this requirement applied consistently in all the PPE procurement processes.
- The importance of ensuring that suppliers' tax affairs are in order also fell by the wayside for many of the PPE contracts awarded, reducing the incentive for government suppliers to pay their dues.
- Businesses that provide PPE across the country were not treated in a fair and equal manner, as some were disqualified based on not complying with the requirements, such as tax clearance certificates, declarations of interest, registrations as companies and small business, or on their status as local producers, while others were not.
 - For some procurement processes the auditors could not obtain sufficient evidence or substance to justify the decisions made to disqualify some bidders or to favour specific bidders.
- The audit identified various instances of contracts being awarded to businesses that do not have a history of providing PPE - often working in a different industry or even being formed or registered just before a contract was awarded.

"Our concerns in this regard are not about legislative compliance, but rather about the fairness in the selection process and the ability of such businesses to deliver on the PPE contracts. We recommended that these contracts be investigated, as such circumstances can be a red flag for fraud or abuse of the supply chain management process. We also reported other red flags for investigation, such as potential cover quoting and signs that the procurement processes had been manipulated," cautioned Maluleke.

Quality, price and delivery of PPE

The National Treasury determined the specifications and market-related prices for PPE items. Through instruction notes, the National Treasury made it a requirement for public sector institutions to purchase the specified PPE at or below these prices and provided for approval processes if there is no choice but to procure at a higher price.

In the first report, the audit office reported on instances of PPE being procured at prices that were higher than these market-related rates. Based on the further audit work done:

- It is becoming apparent that such higher prices are quite prevalent in both the health and education sectors.
 - Not only did the sectors potentially suffer financial losses as a result, but this also demonstrates unfairness in the procurement processes as some suppliers that quoted at high prices were given contracts while others were not.
- Some suppliers delivered PPE that did not meet the required specifications or was not what they had been contracted to deliver, or they under-delivered or delivered late. Despite this, the suppliers were still paid by most of the departments.
- Poor contract management and significant deficiencies in the order, delivery, receipt and payment processes further exposed the health and education sectors to financial loss and resulted in health workers and schools not always receiving the PPE they required.

Storage and distribution

In the health sector, PPE was stored at bulk storage facilities, such as medical depots, and at health facilities. In the education sector, it was mostly stored in district offices and schools.

Auditors identified ineffective stock management processes, inadequate storage facilities and poor storage practices in both sectors.

Says the AG: “We acknowledge that the emergency procurement of PPE in bulk placed pressure on all aspects of storage and distribution, but the inability to respond to the challenges impacted on the effectiveness of the distribution of PPE in some provinces and exposed the PPE to loss.”

D. Emergency supply of water

The Department of Water and Sanitation and the Department of Basic Education identified the need for emergency water supplies to communities where there is no or an unreliable water supply and to schools without water and sanitation facilities.

The departments provided the funding, determined where emergency water was required and appointed Rand Water as an implementing agent.

The AGSA did site visits to a selection of communities and schools to determine whether the water tanks and tankering services paid for were in place and to inspect the quality of the installations.

The audit teams also considered the needs analyses performed and audited the procurement and payment processes for the suppliers of the water tanks and water tankering services.

Below are some of the key findings:

Emergency water supply to communities

The AG says the shortcomings that have often been observed in the coordination, monitoring and oversight between the different role-players in the water services sector – departments, water boards as implementing agents and municipalities – were again apparent.

- Auditors could not reconcile some of the information on the registers of the water tanks with what they found at the sites and match it to the original needs analyses performed.
 - Some registers included information that was incomplete or inaccurate, or tanks that were not funded by the covid-19 initiative.
 - The poor record keeping also affected the quality of the information reported to the National Water Disaster Command Centre.
 - We could not find some of the tanks at the locations specified in the registers and there are unconfirmed claims that the tanks were moved by the municipalities. At some of the sites we found tanks that were empty and tanks with poor quality installations.

Emergency water to schools

- The analyses performed to determine which schools needed water tanks and the required capacity of the tanks were incorrect because the provincial

departments provided unreliable data. As a result, a large proportion of the schools that received water tanks did not need them and some schools that received water tanks were not on the original project list.

- For the delivery of water to schools, Rand Water's registers of the water tanks were inadequate and inconsistent with what we observed on site visits. We also observed similar poor installations of water tanks.
- Auditors identified instances of non-compliance with legislation in the procurement processes followed by Rand Water, as well as indications of unfairness in the appointment processes.
- In addition, the payments made for some of the water tankering services were questionable because there was supporting documentation was inadequate, calculation errors were made and payments were made for water supplies to schools and other sites that were not part of this programme.

E. Frontline services and health response to covid-19

Field hospitals

The provincial health departments were responsible for analysing the existing hospital capacity and establishing the additional number of beds needed.

In Limpopo, North West and the Western Cape, the provincial health departments implemented the field hospital projects, while in Gauteng, KwaZulu-Natal, the Eastern Cape, Mpumalanga and the Free State, this was done by the provincial public works departments.

As the numbers of positive cases stabilised, the projects that were in the procurement, planning or design phases were halted.

- Auditors identified non-compliance with legislation in the appointment process of some of the contractors and suppliers.
 - This non-compliance included competitive procurement processes not being followed and all required declarations and bidding documentation not being requested and evaluated.
 - The contracts were not always concluded and approved in the manner required and the AGSA raised concerns about how some of the contracts were managed and enforced.

- Sufficient control was not always exercised over the payment process, which resulted in instances of overpayment and payment for goods and services not received or outside the contract.
- The audit teams visited eight of the field hospital sites and reported delays in the completion and commissioning of two sites (Free State and KwaZulu-Natal).
 - Two sites also did not have decommissioning plans in place (KwaZulu-Natal and North West).

Quarantine sites

The original target of 6 123 quarantine sites was not pursued as the demand for such facilities has been relatively low - only the 192 sites already activated by the end of July continued to be used when the need arose.

“As almost all the sites are still active, the decommissioning phase will be a key focus of our ongoing audit. It is vital that the public works sector has a decommissioning plan or strategy in place to ensure that government assets will be transferred to other organs of state once quarantine sites are closed down,” advises the AG.

- Although an effort was made to develop appropriate controls to prevent the weaknesses reported in the first special report, these controls were not fully implemented and effective. This resulted in repeat findings on matters such as hotels charging rates above the allowable limits, the use of sites that had not been approved by the Department of Health and overpayments.
- The lack of coordination between, and accountability in, the public works and health sectors remained evident during AGSA’s site visits.
- The AGSA also could not obtain the necessary evidence of approvals and in support of payments made for the use of some quarantine sites.

Expanded public works programme

The expanded public works programme was announced in March 2020 to provide both frontline services and much-needed job opportunities. A targeted 25 000 workers were to be sourced to assist the Department of Health with screening, testing and educational campaigns.

The scope of the project was recently amended to exclude the screening and testing initiatives and to provide for the redeployment of 1 658 participants to focus on initiatives in response to gender-based violence.

As reported in the first report, there were delays in deploying the participants. However, by the end of September 2020, the programme was operational across the country and 19 587 participants (78% of the targeted 25 000) had been recruited.

In response to the concerns raised in the first report, a number of actions were taken, including the strengthening of the agreements between the Department of Public Works and Infrastructure, the Independent Development Trust and the non-profit organisations responsible for implementation. However, because of the limited timeframe for the effective implementation of these improved controls, the AGSA again identified:

- that the participants did not receive adequate monitoring and training from the non-profit organisations, and that not all participants were provided with the PPE they required.
- delays in the payment of wages to participants by some non-profit organisations.

The AG cautions that for the programme to achieve its ultimate objective, leadership will need to commit to providing the oversight necessary to successfully implement all enhanced controls and eradicate the remaining identified shortcomings.

Defence frontline services

The Department of Defence repatriated South African citizens from China's Wuhan province in March 2020 and deployed soldiers to support the enforcement of law and order. As part of its covid-19 responses, the department also procured medical equipment, PPE and medicines, and refurbished One Military Hospital.

- The AGSA identified a number of shortcomings in the planning, procurement, transportation, warehousing and recording of medicines - in particular the procurement and import of an unregistered medical drug from Cuba.
 - Approximately 40% of the vials were exposed to temperature variations that could have compromised the integrity of the drug, which may result in these drugs not being useable and the money spent being wasted.
- The auditors also observed inadequate planning for the procurement of medical equipment and PPE.
- The department's PPE procurement processes displayed similar non-compliance and weaknesses to those observed in the health and education sectors, namely procurement at higher than market-related prices and attention not being paid to the tax status of bidders or to the need to give preference to local suppliers.

- The manual process used to manage the receipt, accounting and distribution of PPE exposed the department to losses and a case of theft of PPE from a main depot is currently being investigated.

Conclusion

Maluleke says her office has extensively engaged with all the affected government ministers and members of the executive councils on the findings and risks in the first report to which they should pay attention.

“We found them to be committed and ready to do what is necessary for the covid-19 initiatives to succeed and to support the accounting officers and authorities to address the shortcomings we identified. We did not have an opportunity to brief all the portfolio and public accounts committees in parliament and provincial legislature. We have, however, taken note of the actions these oversight structures have taken to call accounting officers and executive authorities to account for the management of the funds entrusted to them.

In particular, the AG reflects on the reaction she had to this report when briefing the executive and accounting officers during the build-up to this launch. As an example, she points to the Department of Defence, which has already commissioned a more detailed investigation into the procurement of medicines that is described in this report. The feedback from the Department of Planning, Monitoring and Evaluation, dealing with longer term actions such as the strengthening of government's systems, reporting and coordination of efforts, was similarly constructive.

Everyone involved should share a common goal

For any endeavour to succeed, everyone involved should share a common goal and understand and embrace the role they play in achieving that goal. All these role-players should diligently execute their responsibilities, abide by the applicable rules and take full accountability for their part, the AG counsels.

“In delivering the covid-19 initiatives, we have observed that if officials, leaders, sectors, implementing agents and institutions do not do their part and actively partner to strengthen the delivery value chain, it undermines the effectiveness of the programme and leads to losses, abuse and costly investigations. The public sector requires longer term, more effective solutions to deal with the underlying causes of people, systems and processes not delivering optimally.

“From our side as the audit office, we will continue to audit the covid-19 funding and follow up on the progress made in addressing the audit findings and observations from this report as part of our normal annual audit. We will also identify material irregularities from this process and commence with the processes required to deal with these irregularities,” concludes Maluleke.

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Media note: The *second special report on the financial management of government's covid-19 initiatives* will be available on www.agsa.co.za.

About the AGSA: The AGSA is the country's supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers' money. This has been the focus of the AGSA since its inception in 1911 – the organisation celebrated its 100-year public sector auditing legacy in 2011.