



BUDGETARY REVIEW AND RECOMMENDATIONS REPORT | PFMA 2018-19

Briefing to Portfolio Committee on Finance



AUDITOR-GENERAL
SOUTH AFRICA

Reputation promise

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



The 2018-19 audit outcomes



Our annual audit examines three areas

THE AG'S
ANNUAL
AUDITS
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND
ABSENCE OF SIGNIFICANT
MISSTATEMENTS IN
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE
INFORMATION FOR
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL
LAWS AND REGULATIONS
GOVERNING FINANCIAL
MATTERS

The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements




Important to note

The percentages in this presentation are calculated based on the **completed audits of sixteen auditees**, unless indicated otherwise.

Audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Outstanding audits

Movement over the previous year is depicted as follows:

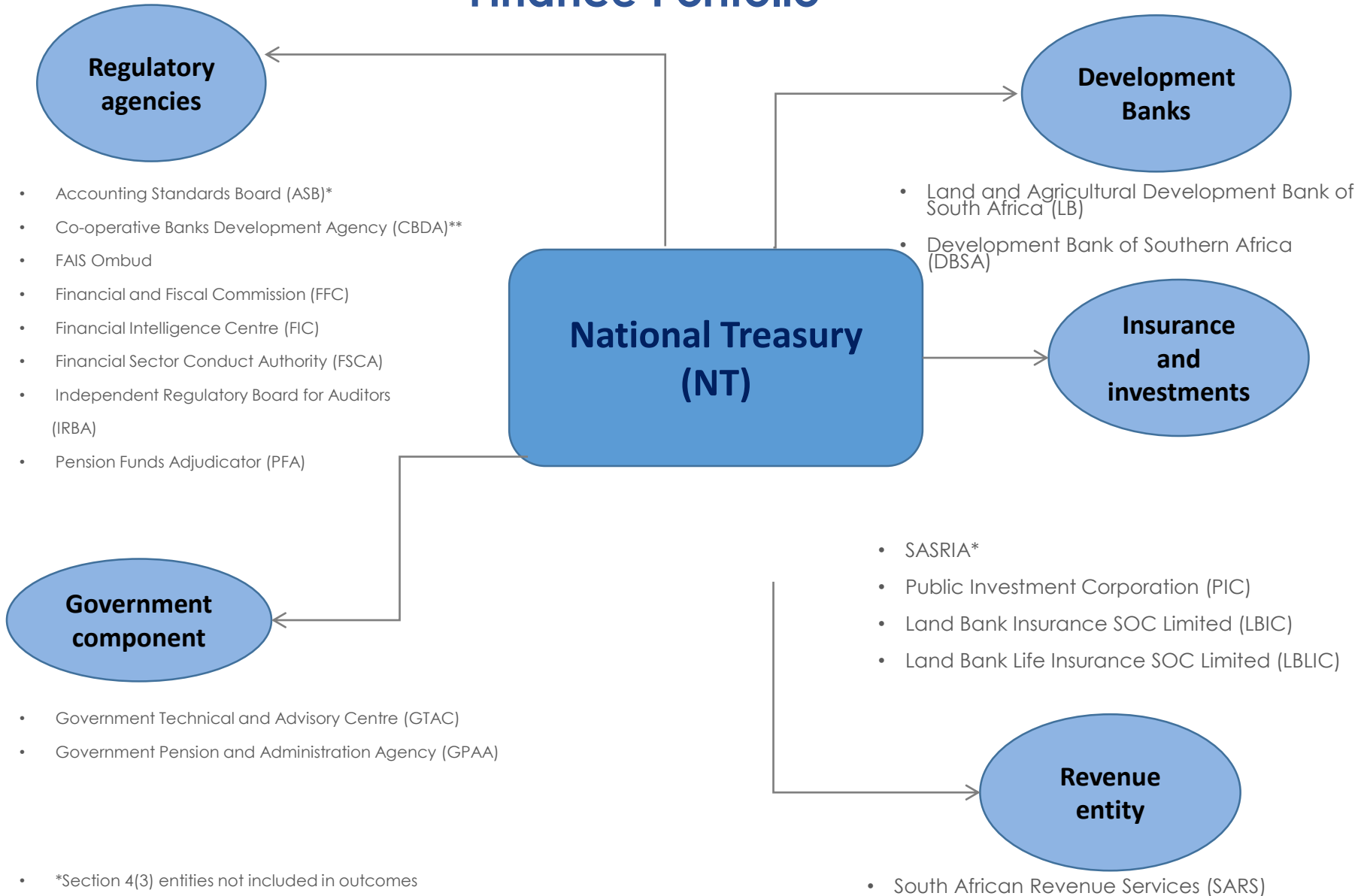
-  Improved
-  Unchanged
-  Regressed



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Finance Portfolio

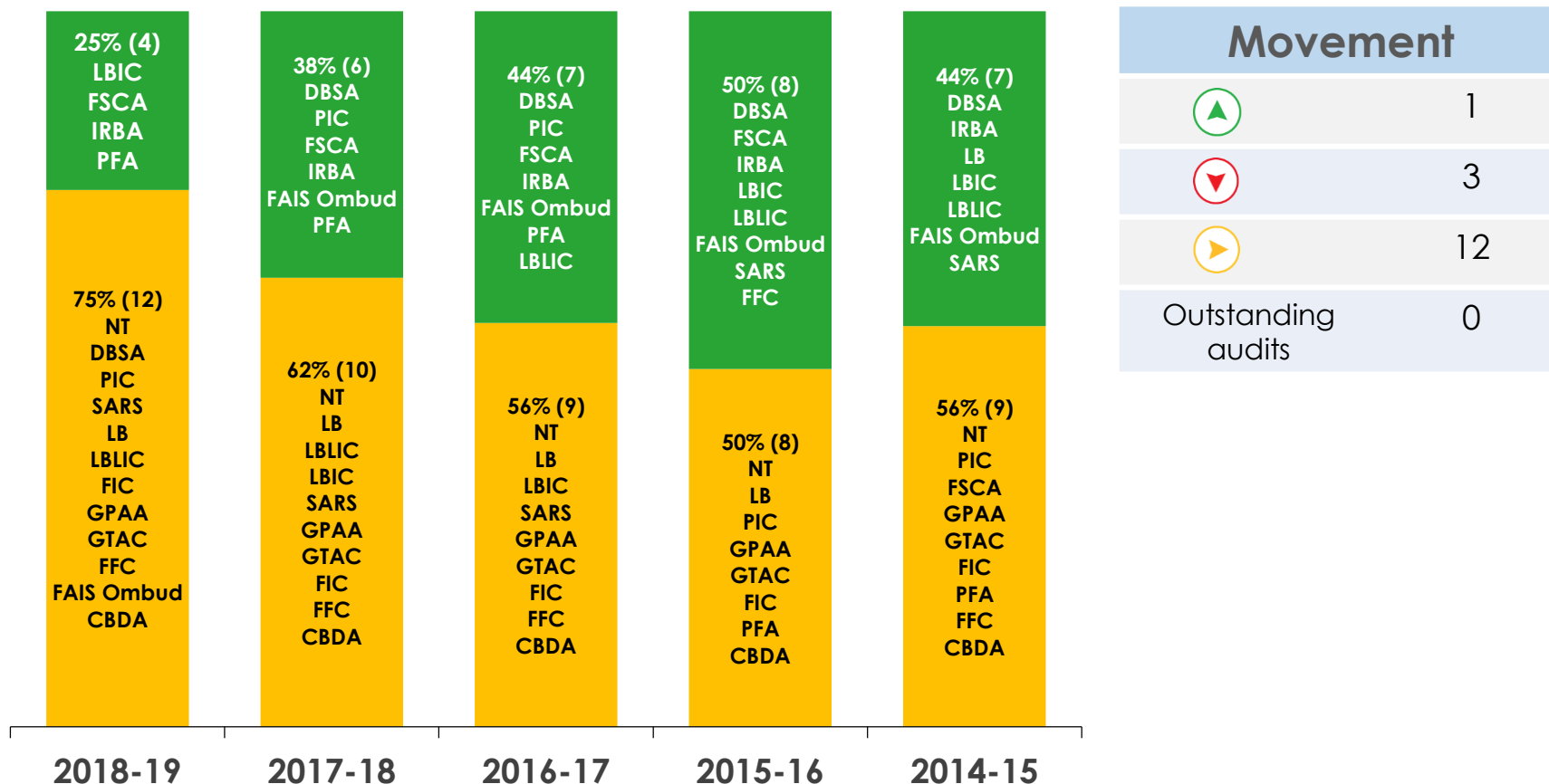


*Section 4(3) entities not included in outcomes

**CBDA is classified as a small auditee



Audit outcomes of portfolio over five years



- The audit outcomes of the portfolio have regressed over the five year period from 44% of unqualified audit opinion with no findings in 2014/15 to 25% in 2018/19.
- Three auditees (DBSA, PIC and FAIS Ombud) regressed from unqualified audit opinion with no findings.
- Three auditees (FSCA, IRBA, and PFA) retained unqualified audit opinion with no findings.
- LBIC obtained a clean audit opinion for the first time since 2015/16 due to an improvement in the quality of the financial statements submitted for auditing.
- Financial statements and performance preparation remains a concern as material adjustments were effected to AFS and APR submitted for audit.





Credible financial reporting



Financial statements

Submission of financial statements by legislated date (all auditees)

Financial statements submitted without errors

Quality of final submission after audit

Movement



2018-19

2017-18

100%

100%

44%

63%

100%

100%

56% achieved unqualified opinions only because they corrected all misstatements identified during the audit





Credible performance reporting



Performance report

	Movement	2018-19	2017-18
Performance report submitted without errors	⬇️	31%	50%
Quality of final submission after audit	⬆️	69%	56%

38% had no material findings only because they corrected all misstatements identified during the audit

31% had material findings that resulted in a qualification (NT, CBDA, GTAC, FIC & GPAA)

Reliable reporting of achievements (PIC, LBLIC, LBIC, PFA, SARS, FSCA, IRBA, LB, FAIS Ombud, FFC, DBSA, CBDA and FIC)

81%

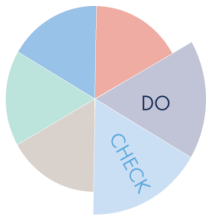
88%

Usefulness of performance indicators and targets (PIC, LBLIC, LBIC, PFA, SARS, FSCA, IRBA, LB, FAIS Ombud, FFC, DBSA and NT)

75%

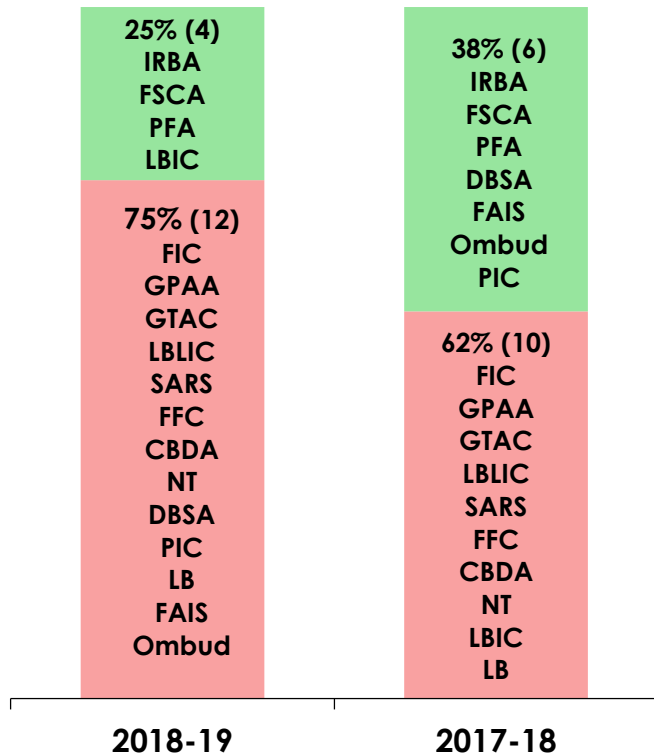
75%





Disregard for compliance with legislation

Findings on compliance with key legislation



■ With no findings
 ■ With findings

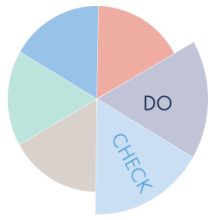
Top five non-compliance areas

- Material misstatements in submitted financial statements ;
- Procurement and contract management;
- Prevention of irregular, fruitless and wasteful expenditure;
- Consequence management;
- Assets under management (Non compliance with Public Investment Corporation Act. 2004 (Act 23 of 2004)).

IFMS Concerns from National Treasury

- A lack of a formal business case, proper project management and inadequate budget monitoring relating to the Integrated Financial Management System (IFMS) programme may result in failure to deliver the overall quality solution on time and with the funds allocated.
- The vacancies in key positions within the IFMS programme may also cause delays in delivering the required solution timeously.





Significant findings at the Public Investment Corporation (PIC)

Audit outcome

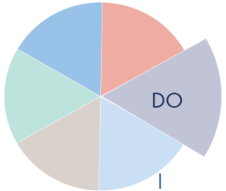
- PIC for 2018/19 regressed from clean audit opinion to a financially unqualified with findings on compliance with applicable legislation.
- The non-compliance areas included non-compliance with investment policies, guidelines and procedures in Asset under Management (AuM).

Below is summary of material non-compliance findings identified for AuM:

- Non-compliance with governance process,
- Due diligences not sufficient and appropriate prior to approval of investment deals,
- Loan contracts not aligned to the approved structured deal as approved,
- Conditions precedent placed on the deal by Portfolio Management Committee (PMC) 2 not incorporated into the legal contract, and
- Limitation of scope where audit evidence was not provided to perform work in areas such as deal origination, disbursements and monitoring of investments.



Status of internal control (excluding small auditee)



Leadership

Effective leadership

80% (12)
NT, DBSA, FIC, FSCA, GTAC, IRBA, LB, LBIC, FAIS
Ombud, PFA, SARS, LBIC

20% (3)
GPAA, PIC, FFC



Financial and performance management

Proper record keeping

74% (11)
DBSA, FIC, FSCA, GTAC, IRBA, LB, LBIC, FAIS
Ombud, PFA, SARS, LBIC

13% (2)
NT, PIC

13% (2)
GPAA, FFC



Daily and monthly controls

60% (9)
DBSA, PIC, FIC, FSCA, LB, LBIC, PFA, SARS,
LBIC

33% (5)
NT, GPAA, GTAC, IRBA,
FAIS Ombud

7% (1)
FFC



Review and monitor compliance

27% (4)
FSCA, IRBA, PFA, LBIC

40% (6)
DBSA, FIC, LB, LBIC, PIC,
SARS

33% (5)
NT, GPAA, GTAC, FAIS
Ombud, FFC



Governance

Risk management

93% (14)
NT, DBSA, FIC, FSCA, GPAA, GTAC, IRBA, LB, LBIC, FAIS
Ombud, PFA, SARS, FFC, LBIC

7% (1)
PIC

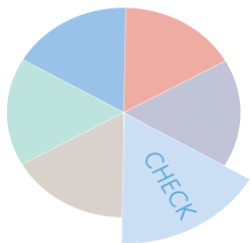


Good

Of concern

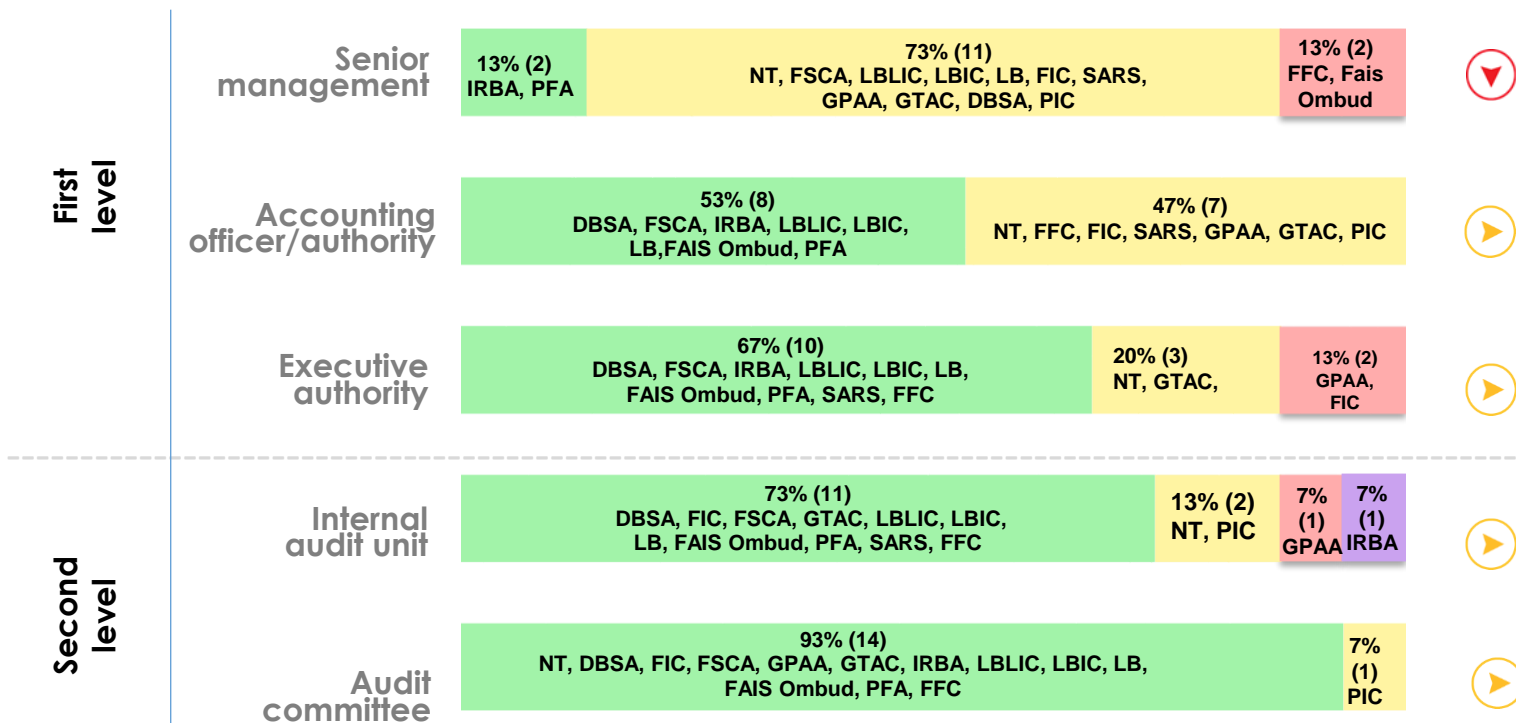
Intervention required

15



Assurance provided (excluding small auditee)

Assurance



Financial health and financial management



Financial health

Material uncertainty exists whether **0%** of auditees can continue to operate in future

Asset and liability management

- Deficit for the year – this does not correlate to an over-spending of the auditee's operating expenditure budget. Measures must be implemented to address this situation to ensure sustainable service delivery and financial viability. **(GTAC, IRBA, LBIC and SARS)**.
- **NT** is in a net current liability position due to a material increase in contingent liabilities during the current financial year. An accrual adjusted net current liability was reported in the current year. Net liability position - highlights a possible risk that the auditee cannot continue its operations at the desired levels, which may lead to an interruption or breakdown to service delivery.

Cash management

- Negative operating cash flows - may result in questions about the auditee's financial viability and its ability to continue operating optimally at its current capacity as a going concern. **(IRBA, LBIC, LBLIC and SARS)**



Of concern



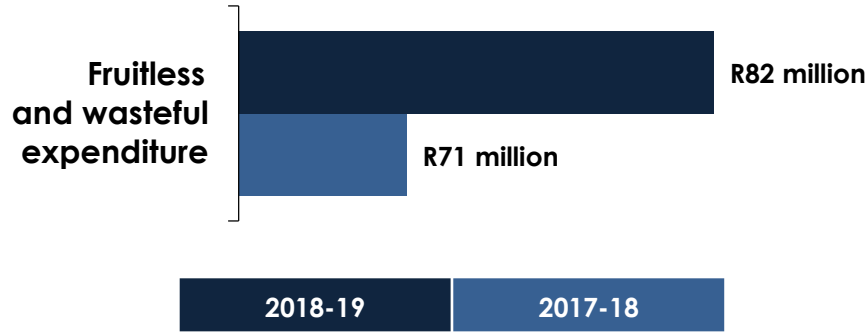
Intervention required

Fruitless and wasteful expenditure increase over 2 years

Definition

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Fruitless and wasteful expenditure incurred by entities in portfolio

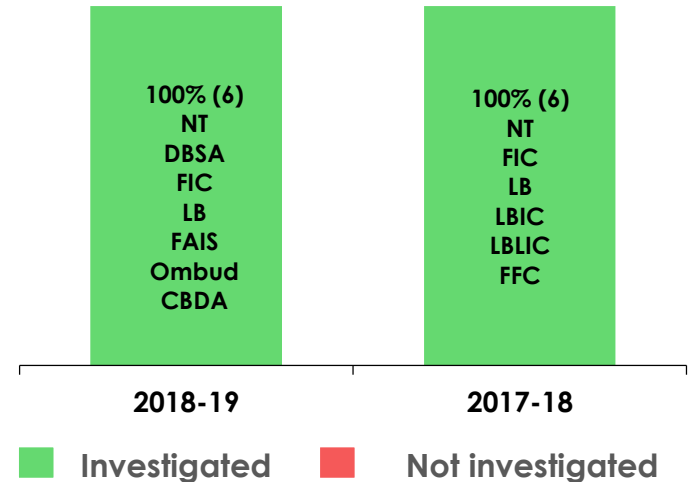


- R65 million relates to the on-going expenditure incurred by NT for technical support on perpetual software licences relating to the IFMS 2 project.*

Nature of the fruitless and wasteful expenditure

- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by NT and SARS.*
- NT : expenditure relates to the payment for technical support and licences relating to the IFMS 2 project of R65 million.*

Previous year fruitless and wasteful expenditure reported for investigation

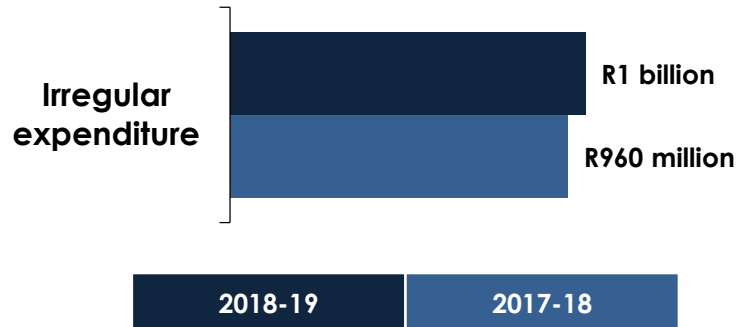


Irregular expenditure increase over 2 years

Definition

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

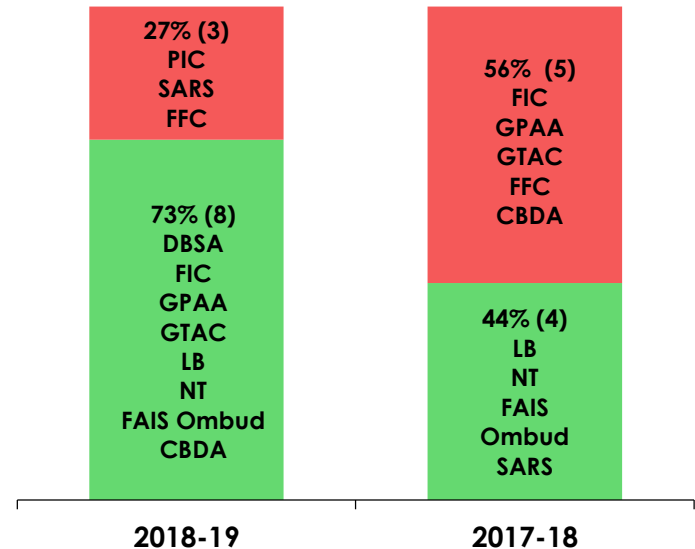
Irregular expenditure incurred by entities in portfolio



Nature of irregular expenditure

- The biggest contributors of irregular expenditure are NT and SARS.
- Irregular expenditure incurred by NT amounted to R466 million and R454 million was incurred by SARS
- The majority was caused by lack of proper procurement processes being followed, as approval from the appropriate authority was not provided, and deviations from the competitive bidding process.

Previous year irregular expenditure reported for investigation



Investigated Not investigated



Supply chain management

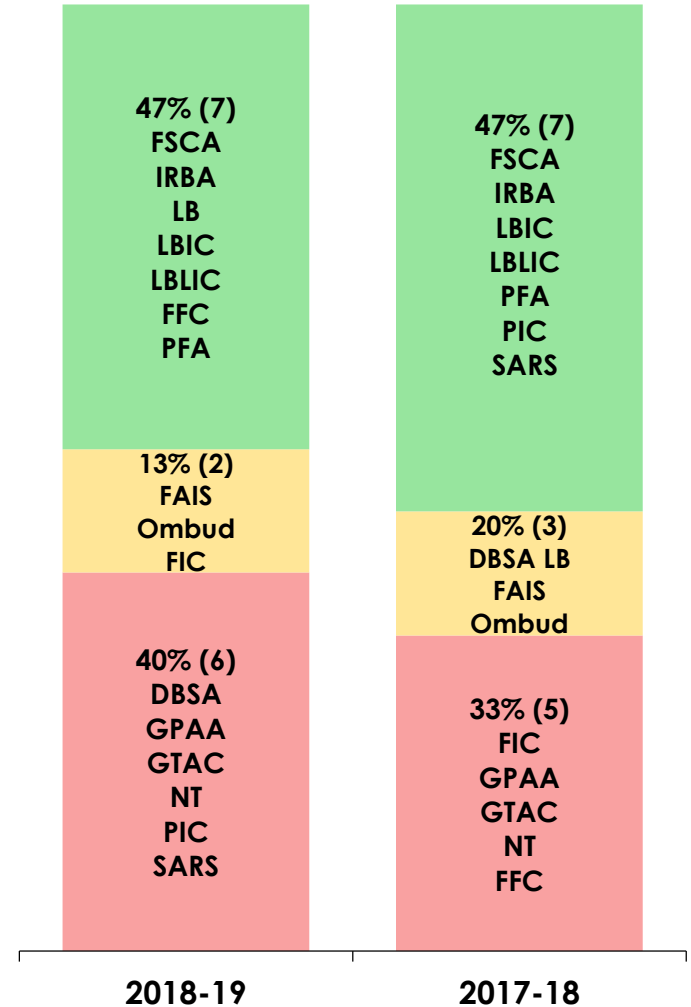


Regression in SCM compliance
(2018-19: 47% with no findings)

All SCM findings should be investigated

Most common findings on supply chain management

- **Uncompetitive and unfair procurement** processes at **47% of auditees**
- **Contracts awarded** differed from original invitation for bidding and contracts **extended or modified without** the approval of a delegated official.



With no findings



With findings

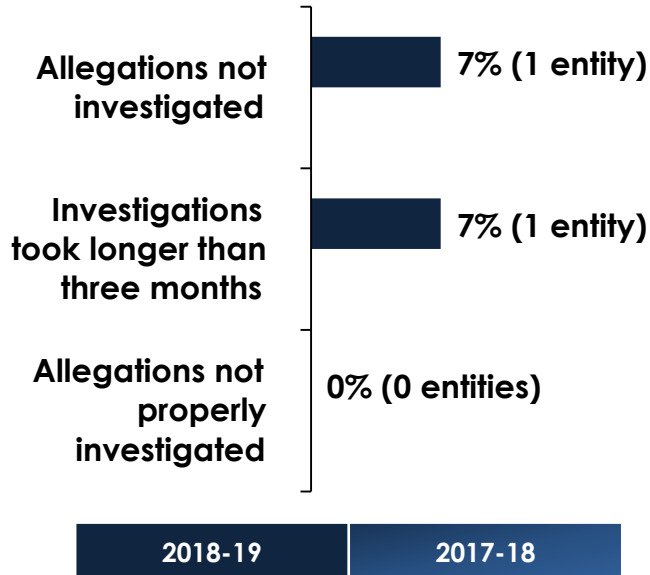


With material findings



Fraud and lack of consequences

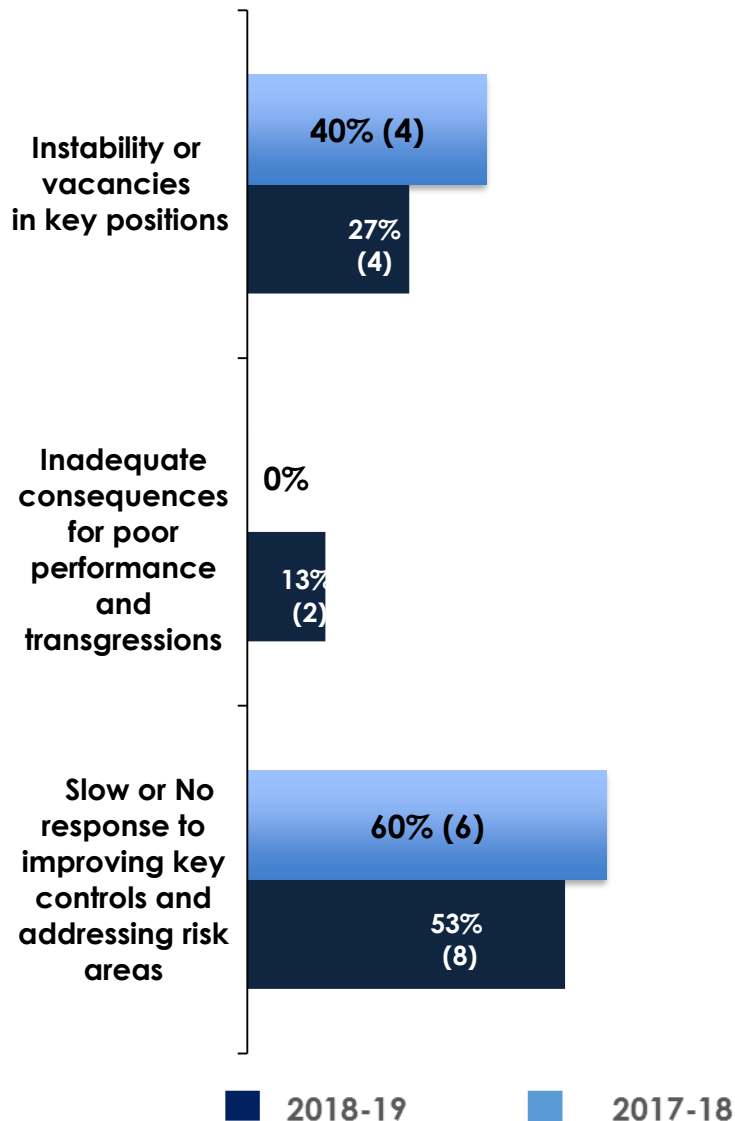
Allegations of financial and/or fraud and SCM misconduct (2 auditees)



- GPAA did not investigate all allegations of financial misconduct due to delays in the initiation of investigations.
- A forensic investigation was conducted by an external service provider on the NT IFMS 2 project. The investigation commenced on 01 February 2018. The investigation focussed on the procurement processes followed, appointments of, and payments made to service providers, with a view of identifying irregularities, if any. The forensic report was finalised and shared with the chairperson of the audit committee on 02 July 2018.



Root causes



The **instability** and **prolonged vacancies in key positions** can cause a **competency gap** and affect the rate of improvement in audit outcomes.



If officials who deliberately or negligently ignore their duties and contravene legislation are **not held accountable** for their actions, such **behaviour can be seen as acceptable and tolerated**.



Management (accounting officers/ authorities and senior management), do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.



Recommendations

To department and its entities

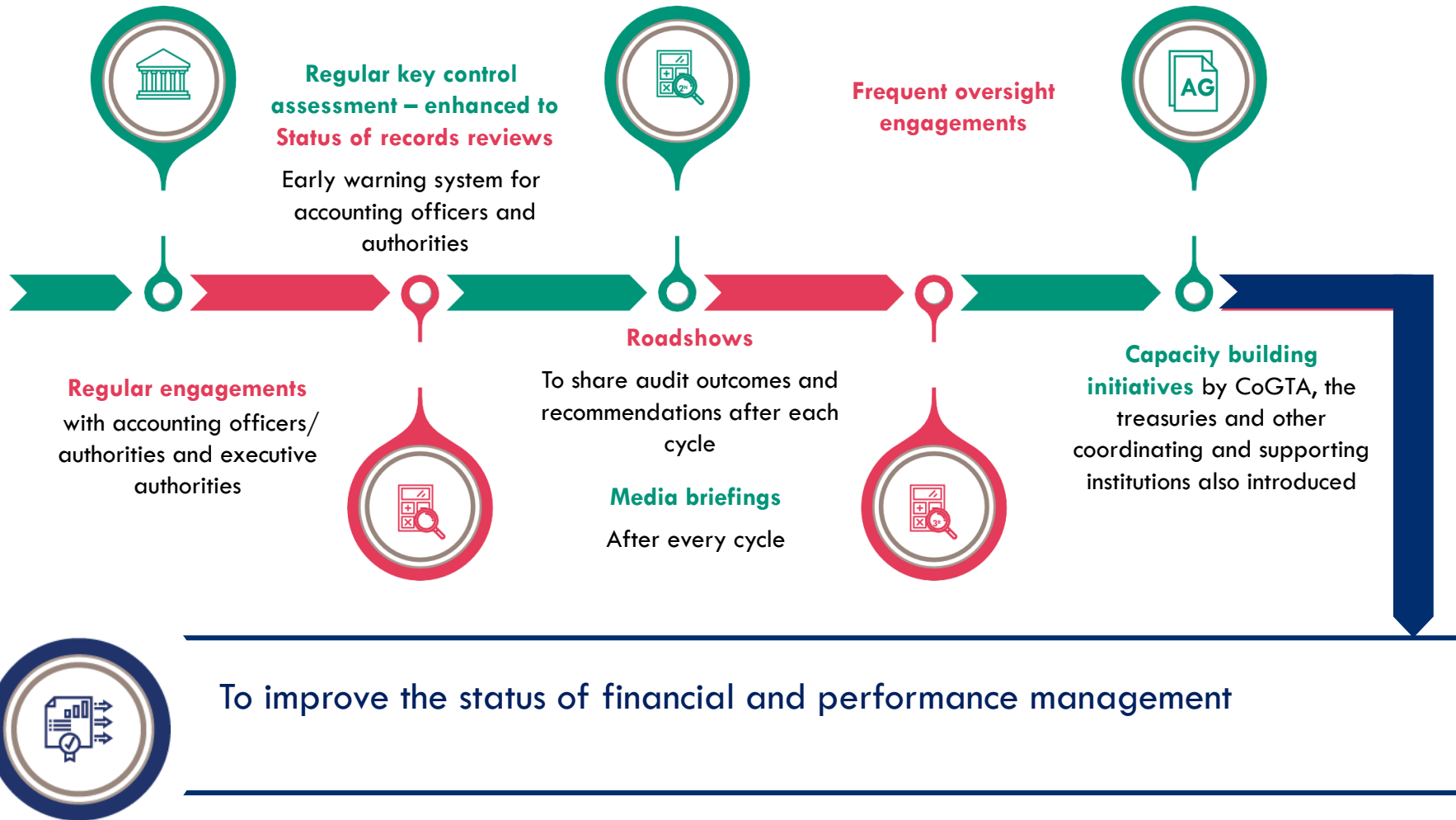
- Follow up and evaluate progress of audit action plans put in place by the department and entities to improve audit outcomes;
- Follow up with the department and entities that incurred irregular, fruitless and wasteful expenditure to ensure there is consequence management;
- Follow up with the department and entities with vacancies in key positions to ensure they are filled timeously; and
- Follow up with the department and entities with regard to key ICT projects to ensure that there is proper monitoring and control of project plans, budgets and deliverables.

To the portfolio committee

- Monitoring and regular follow up with the executive authority and the accounting officer/authority on :
 - Progress on audit action plans put in place by the department and entities to address undesirable audit outcomes;
 - Management of vacancies to ensure stability of leadership;
 - Progress on IFMS 2 implementation and status of consequence management following the outcome of the forensic investigation; and
- The culture of consequence management should be enforced in the portfolio.



Additional efforts were introduced



Key expansion of our mandate



Refer material irregularities to relevant public bodies for further investigations



Take binding remedial action for failure to implement the AG's recommendations for material irregularities



Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

What is a material irregularity?

Irregularity



any **non-compliance** with, or contravention of, legislation, **fraud, theft or a breach of a fiduciary duty**

Material
irregularity

identified during an audit performed under this Act that **resulted in or is likely** to result in ...

Impact



a **material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.**



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