



AUDITOR - GENERAL
SOUTH AFRICA

BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR):

Portfolio Committee on
Performance
Monitoring and
Evaluation

11 October 2022

*Briefing document on the
audit outcomes for the
DPME portfolio:
2021-22*



Table of contents

1. Introduction.....	3
1.1 Reputation promise of the Auditor-General of South Africa.....	3
1.2 Role of the AGSA.....	3
1.3 Role of the portfolio committee.....	3
1.4 Mandate of the AGSA and the portfolio committee.....	4
1.5 Purpose of this document.....	5
1.6 Shifting the public sector culture through the accountability ecosystem.....	5
1.7 Audit outcomes explained.....	6
1.8 Material irregularities.....	6
2. No change in audit outcomes over administration term.....	7
2.1 Department of Planning, Monitoring and Evaluation.....	9
2.2 Statistics South Africa.....	12
2.3 Brand South Africa Trust.....	14
3. Main root causes, recommendations and commitments for the portfolio.....	16
4. Portfolio committee message.....	17

1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

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.

1.2 Role of the AGSA

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 entities, taking into consideration the committee's objective to produce a budgetary review and recommendations report (BRRR).

1.3 Role of the portfolio committee

Section 5(2) of the Money Bills Procedures and Related Matters Amendment Act 9 of 2009 allows for each committee to compile a BRRR, which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

- An assessment of entities' service delivery performance given available resources
- An assessment on the effectiveness and efficiency of entities' use and further allocation of available resources
- Recommendations on the further use of resources.

1.4 Mandate of the AGSA and the portfolio committee

Slide 2

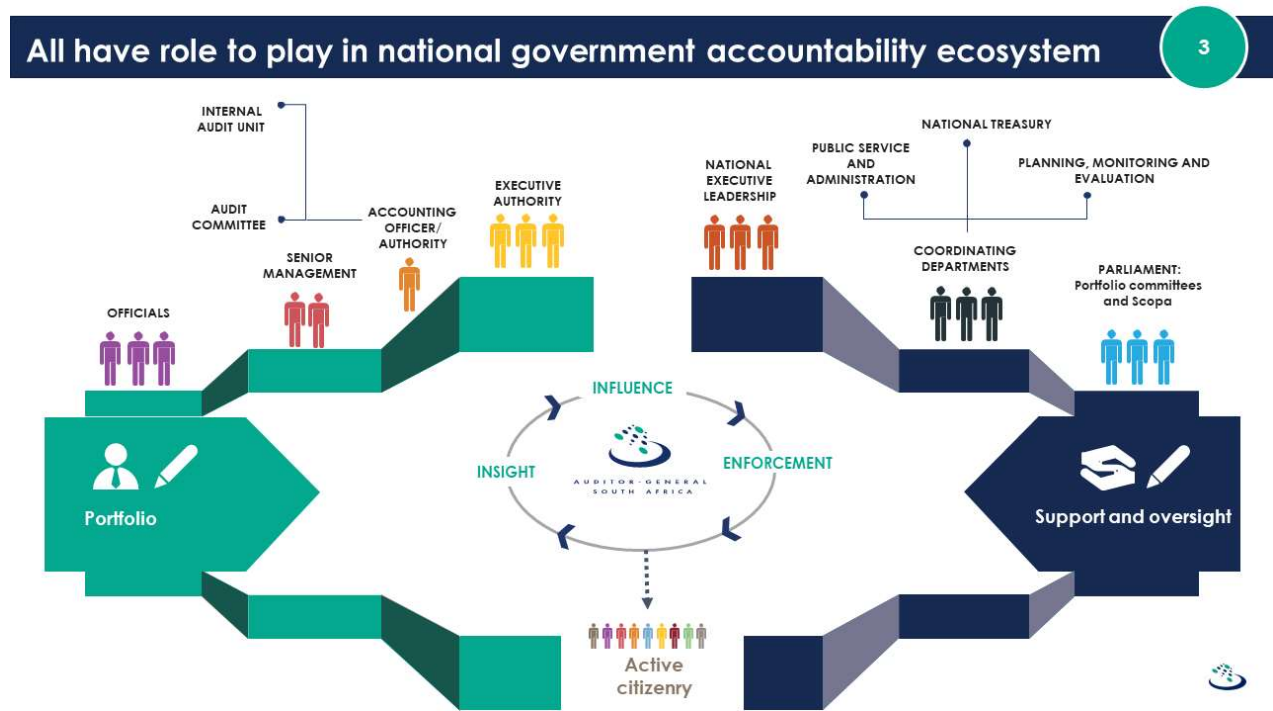
AGSA mandate	Portfolio committee mandate
<p>Section 188 of the Constitution</p> <p>The AGSA must audit and report on the accounts, financial statements and financial management of government institutions.</p> <p>Section 20(2) of the Public Audit Act (PAA)</p> <ul style="list-style-type: none"> • The AGSA must prepare an audit report containing an opinion/conclusion on the: <ul style="list-style-type: none"> ○ fair presentation of the financial statements ○ compliance with applicable legislation ○ reported performance against predetermined objectives. • Discretionary audits (including special audits, investigations and performance audits). <p>Section 5(1B) of the PAA</p> <p>The auditor-general has the power to:</p> <ul style="list-style-type: none"> • issue notification of a material irregularity • include recommendations in the audit report • take an appropriate remedial action • issue a certificate of debt, as prescribed, where an accounting officer/authority has failed to comply with remedial action. 	<p>National Assembly Rule 227</p> <p>Portfolio committees may, among other things, perform the following functions:</p> <ul style="list-style-type: none"> • Deal with bills and other matters falling within their portfolio, as referred to them in terms of the Constitution, legislation or rules, or by resolution of the assembly • Maintain oversight of their portfolios of national executive authority, including implementation of legislation, any executive organ of state falling within their portfolios, any constitutional institution falling within their portfolios, and any other body or institution in respect of which oversight was assigned to them • Consult and liaise with any executive organ of state or constitutional institution • Monitor, investigate, inquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution • Consult and liaise with any executive organ of state or constitutional institution • Perform any other functions, tasks or duties assigned to them in terms of the Constitution, legislation, these rules, the joint rules or resolutions of the assembly, including functions, tasks and duties concerning parliamentary oversight or supervision of such executive organs of state, constitutional institutions or other bodies or institutions.

1.5 Purpose of this document

The purpose of this briefing document is for the AGSA to reflect on the audit outcomes to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the objective of the committee to produce a BRRR.

1.6 Shifting the public sector culture through the accountability ecosystem






Slide 3



- The accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and/or insist on public sector accountability.
- A more active and engaged accountability ecosystem would add to the much-needed effort of shifting public sector culture and would alleviate the over-reliance on the AGSA to assume responsibility for improving audit outcomes and enforcing consequences.

- *Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if all role players in the broader accountability ecosystem fulfil their respective responsibilities and mandates.*
- *Given the nature of the AGSA’s mandate, by the time that we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.*
- *Improvement in sound financial management to enhance the lives of citizens does not only reside within the domain and responsibility of the accounting officer or authority and the auditors. It depends on the entire accountability ecosystem to enable a culture of accountability in a sustainable and meaningful way.*

1.7 Audit outcomes explained

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
 <p>Auditee:</p> <ul style="list-style-type: none"> • 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 	 <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> • 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 	 <p>Auditee:</p> <ul style="list-style-type: none"> • 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. 	 <p>Auditee:</p> <ul style="list-style-type: none"> • 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 	 <p>Auditee:</p> <ul style="list-style-type: none"> • 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

1.8 Material irregularities

Definition: *A material irregularity means any non-compliance with, or contravention of, legislation, or fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA that*

resulted in or is likely to result in 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.

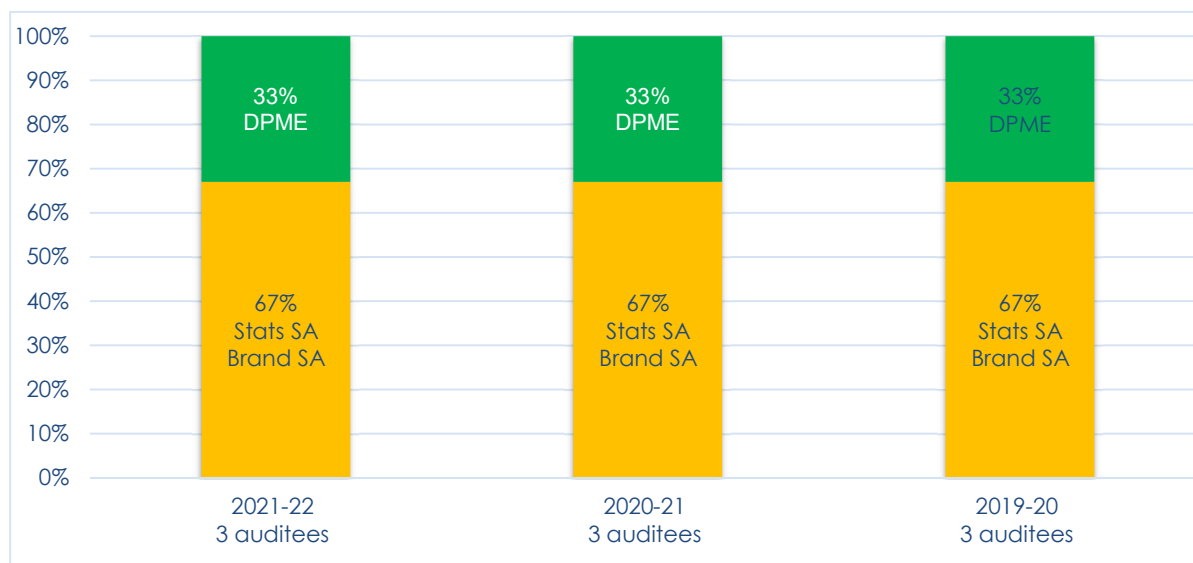
Auditees in the portfolio scoped in

	2021-22	2022-23
Auditees	Brand South Africa Trust.	Not yet determined.

2. No change in audit outcomes over administration term

Slides 4 - 6

Three-year audit outcomes



Overview

The overall outcomes in the portfolio have remained the same from the first year of administration (2019-20) to the current financial year.

The portfolio has one auditee (**DPME**) that achieved an unqualified audit opinion with no findings (clean), which represents 33% of the audits in the portfolio. This is the same as the prior two years. **DPME** has managed to sustain the “clean” audit status for a number of years.

The factors that contribute to this entity’s clean audit outcomes are as follows:

- Leadership oversight that is entrenched in the organisation.
- The constant monitoring that takes place at all levels.
- Internal audit effectively executes their mandate with the thorough follow-up of audit action plans and monitoring the implementation of actions to address prior year audit findings.
- The audit committee monitors the implementation of the actions plans to address audit findings through the reporting of internal audit.
- Best practices that resulted in the department sustaining its audit outcome reflect a culture of leadership committed to take action to address any findings identified, supported by adequately resourced and skilled staff.

The focus of **DPME**, going forward, should be to ensure that they not only achieve clean audit outcomes but also perform effective monitoring of the service delivery departments to enable the effective and efficient delivery of services to citizens.

Stats SA and Brand SA received financially unqualified audit opinion with findings on compliance with legislation. The following are key issues identified which led to these auditees not obtaining clean audit outcomes:

Quality of submitted financial statements – Only **DPME** submitted financial statements that are free of material misstatements. This is the same as the prior year when **DPME** was the only auditee that managed to submit financial statements that are free of material misstatements. This can be attributed to a lapse in the control environment, where the internal controls systems of the auditees could not identify material misstatements and errors. The key root causes of the errors and/or misstatements in the financial statements are a lack of a proper understanding of the requirements of accounting frameworks and inadequate reviews by different role players. The accounting officer/authorities should implement disciplined financial reporting structures based on solid accounting and financial management knowledge and enhance processes of review of the financial statements to ensure that quality financial statements are submitted for audit.

Other compliance with legislation: The prevalent instances of non-compliance are in the areas of procurement and contract management (**Stats SA**), asset management (**Brand SA**) and financial statements (**Stats SA and Brand SA**). The findings on procurement and contract management related to goods and services of a transaction value above R500 000 which in some instances were procured without inviting competitive bids and where deviations were approved by the accounting officer

although it was practical to invite competitive bids. Some of the contracts were awarded to bidders based on preference points that were not allocated. The finding on asset management related to the movable assets that were not disposed of in a manner that is most advantageous to the state. Compliance monitoring by auditees, mainly relating to SCM prescripts, was not effective due to a lack of adequate oversight. The auditees are urged to develop and implement an action plan to ensure that the non-compliance identified in the current year is addressed. Furthermore, internal control should be enhanced to ensure that a detection and preventative mechanism is in place to identify similar non-compliance in future.

2.1 Department of Planning, Monitoring and Evaluation

2.1.1 Findings on the audit of the annual performance report

Slide 8

There were no material misstatements in the APRs submitted by Stats SA and Brand SA; however, material misstatements were identified in the APR submitted by the DPME. Management was able to correct the misstatements identified. The main finding related to the following:

Differences were identified between the APR and the supporting documents for the scoped-in programme.

Furthermore, the planning documents of DPME were compared to the MTSF and the following matter was identified:

MTSF indicators materially differed from those included in the planning documents for DPME, e.g. the indicator as per the MTSF refers to number of jobs created through Operation Phakisa; however, DPME's indicator refers to number of integrated Operation Phakisa reports produced on the labs, which highlights progress and challenges over a six-month period (see below).

Achieving key performance targets – summarised information from performance report

Slides 9

A total of 39 targets out of 49 planned targets were achieved for 2021-22, which represents an 80% achievement based on the annual performance report.

The department is a lead in seven (7) MTSF output indicators and although all these indicators were included in the department's planning documents, we identified that one (1) indicator differed materially from the MTSF indicator, as indicated below:

MTSF	DPME planning documents 2021/22	Comment
<p>Indicator Number of Jobs created through Operation Phakisa</p> <p>Target 402 950 jobs created by 2024</p>	<p>Indicator Number of Integrated Operations Phakisa Reports produced</p> <p>Target 2 Integrated Operations Phakisa delivery labs reports produced</p>	<p>The department issues reports on the Labs which highlights progress and challenges over a six month period to provide feedback on the implementation of Interventions and does not report on the number of jobs created.</p> <p>If MTSF targets are not tracked they may result in them not being monitored and reported. The lack of reporting on the number of jobs created through Operation Phakisa has a direct impact on the lived experienced by the citizens as the lack of employment has a direct impact on the quality of the citizens lives.</p>

2.1.2 Service delivery

Slide 12 & 13



DPME

Insights:

- The quality of performance indicators included in the APP
- The performance process of the Ministers and HoDs
- The assessment of DPME's value adding APP review process

Overall message

Quality of performance indicators

- The department measures majority of their indicators through production of reports.
- These monitoring reports are presented to various structures such as cabinet and the Presidency (depending on the type of report).
- When presentations are made to the various structures, recommendations on how to address challenges noted are also discussed.

Performance of Ministers/ HoDs

- The performance of DGs can not always be compared against the performance of Ministers or be linked to service delivery.
- There is a low submission rate of performance assessments by DGs & HODs. Some new and acting DGs/ HoDs are not required to submit performance agreements and assessment.

APP review process

- For the 2022/23 financial year, all the national (except State Security) and provincial departments from 6 provinces submitted their draft APP for review.
- Comprehensive assessment reports with recommendations were submitted to all the institutions that submitted their APP.

Key recommendations

- DPME should continue working with DPSA to enhance the performance management process of the HODs.
- The weight allocated to indicators in the DGs/HODs performance agreements must be revised to ensure more weight is given to Key Responsibility Areas (KRAs) that have a direct impact on service delivery
- The Minister in The Presidency could assist by raising awareness with other ministers on outstanding performance agreements.
- Acting incumbents in the DGs/ HoDs positions should not act for long and vacant DGs/ HoDs positions should be filled timeously.
- Acting DG's/HoD's should be included in the DPSA's Performance Management Development System (PMDS) for HoDs for tracking purposes.



DPME

Insights obtained on the following:

The performance process of the Ministers and HODs

The assessment of DPME's value adding APP review process

Impact:

When HODs do not perform this has a direct impact on the lived experiences of the citizens

If departments APPs do not contain the indicators and targets relevant to their mandates, this will result in the MTSF targets not being achieved and subsequently impacting on the lived experiences of the citizens

Cause:

No other consequence management available for DGs/HODs who do not submit their performance agreements except for exclusion from being considered for pay progression.

Actions/Recommendations:

Other consequence management should be considered for HODs that do not submit their performance agreements and it should also be compulsory for new and acting HODs to prepare and submit their performance agreements and assessments

The submission of draft APPs by all national and provincial departments for review by DPME should be made compulsory and any non-compliances should be reported and addressed

Key observations

The Ministers Key Responsible Areas (KRAs) in their performance agreements are filtered down to the performance agreements of their respective DGs through their monitoring process

For the 2018/19 (21%) and 2019/20 (16%) a low submission rate of the performance assessments by DGs & HODs was noted. One of the contributors to this low submission rate could be linked to the fact that new and Acting DGs and HODs are not required to submit their performance agreements or assessments this is particularly concerning for DGs/HODs that have been acting for longer periods without being assessed e.g. at DPWI there has been instability in the DG position due to the DG being on suspension since 2020, the DG position has been held by various acting incumbents till to date indicating that the DG for DPWI has not been assessed since 2020 to date.

If the DG/HOD of departments are not assessed for a prolonged time, this could negatively affect the performance of the department and subsequently the lives of citizens as timely corrective measures will not be identified and implemented.

For the 2021/22 financial year, only 93% DGs/HODs submitted their performance agreements to DPME.

All national departments and the provincial departments from the six provinces with no capacity submitted their APPs for review by DPME. DPME submitted comprehensive assessment reports with recommendations to all the institutions that submitted their APPs.

2.1.3 Irregular expenditure analysis

Slide 23

During the year under review, the department incurred irregular expenditure amounting to R14 317 000, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure increased by 100% since the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
SCM procurement processes not followed	14 317 000	Poor procurement planning to ensure that procurement processes are followed and approved by the correct delegated official	Non-compliance with PFMA, National Treasury regulations and National Treasury instruction note 3 of 2016-17
Total IE disclosed	14 317 000		



2.1.4 Other important matters

Investigations

The Public Service Commission investigated an allegation of irregular appointments at the department that was reported to them, which covered the period 1 April 2018 to 31 March 2020. The investigation report was issued on 17 March 2021 and is presently under consideration by the department.

2.2 Statistics South Africa

Achieving key performance targets – summarised information from performance report

Slide 9

A total of 332 targets out of 371 planned targets were achieved for 2021-22, which represents a 90% achievement based on the annual performance report.

2.2.1 Irregular expenditure analysis

Slide 23

During the year under review, the department incurred irregular expenditure amounting to R235 534 000, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure increased by 109% since the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Non-compliance with HRM prescripts	67 000	Some temporary staff were appointed without following HRM prescripts	Non-compliance with PFMA and HRM prescripts
Non-compliance with SCM prescripts	235 467 000	Some deviations from the procurement process were awarded without obtaining prior approval from the relevant authorities	Non-compliance with PFMA and SCM prescripts
Total IE disclosed	235 534 000		

2.2.2 Findings on the audit of financial statements

Slide 20

No qualification areas. All material misstatements were subsequently adjusted by management.

2.2.3 Findings on compliance with legislation

Slide 21

The following material compliance issues were identified and reported:

Description	Root cause
<p>Annual financial statements, performance reports and annual reports</p> <p>The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 40(1)(b) of the PFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified opinion.</p>	<p>Lack of regular reviews and reconciliations of the financial statements</p>
<p>Procurement and contract management</p> <p>Some of the goods and services of a transaction value above R500 000 were procured without inviting competitive bids, and deviations were approved by the accounting officer although it was practical to invite competitive bids, as required by Treasury Regulation 16A6.1, paragraph 3.4.1 of Practice Note 8 of 2007-08 and treasury regulation 16A6.4.</p> <p>Some of the contracts were awarded to bidders based on preference points that were not allocated in accordance with the requirements of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA) and the Preferential Procurement Regulations.</p>	<p>Lack of adequate and effective controls to prevent non-compliance with laws and regulations</p>

2.2.4 Internal controls

The significant deficiencies in internal control that led to the AGSA's overall assessment of the status of the drivers of key controls are described below.

Leadership

The oversight by the accounting officer/authority regarding the financial statements process was ineffective as material misstatements were identified. The oversight process must be enhanced to ensure credible financial statements are submitted for audit.

Financial and performance management

Compliance monitoring by senior management, mainly relating to supply chain management prescripts, were not effective due to a lack of adequate oversight, resulting in non-compliance. The accounting officer needs to develop and implement an action plan to ensure that the deficiencies identified in the current year are addressed.

2.3 Brand South Africa Trust

Achieving key performance targets – summarised information from performance report

Slide 9

A total of 31 targets out of 35 planned targets were achieved for 2021-22, which represents an 89% achievement based on the annual performance report.

2.3.1 Findings on the audit of financial statements

Slide 20

No qualification areas. All material misstatements were subsequently adjusted by management

2.3.2 Findings on compliance with legislation

Slide 21

The following material compliance issues were identified and reported:

Description	Root cause
<p>Annual financial statements</p> <p>The financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(a) of the PFMA. Material misstatements of expenditure and disclosure items identified by the auditors in the submitted financial statement were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.</p>	<p>Lack of adequate review and monitoring controls over the preparation of the BSA financial statements.</p>
<p>Asset management</p> <p>The Brand South Africa Trust did not dispose of movable assets in the manner that is most advantageous to the state, as required by treasury regulation 16A.7.1.</p>	<p>Slow response by management and the pending finalisation of the merger with SA Tourism are negatively impacting BSA as key positions cannot be filled due to the moratorium in place. This affects the day-to-day running of the entity negatively.</p>

Internal controls

The significant deficiencies in internal control that led to the AGSA's overall assessment of the status of the drivers of key controls are described below.

Leadership

Management did not exercise adequate oversight of financial reporting pertaining to disclosure items, compliance to laws and regulations, as well as related internal controls, because the required checks were not performed at the relevant levels.

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information, due to the absence of the necessary skills and competencies.

Management did not in all instances implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and

performance reporting, due to the absence of a systematic record keeping system as well as the lack of accountability required for submission of information.

Management did not in all instances implement controls over daily and monthly processing and reconciling of transactions, due to the absence of the necessary skills and competencies.

Management did not in all instances review and monitor compliance with applicable legislation, because the required checks were not performed at the relevant levels.

3. Main root causes, recommendations and commitments for the portfolio

Slide 28

All role players should continue to work together to strengthen the capacity, processes and controls of entities in the portfolio, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and improved service delivery.

Key recommendations to, and commitments by, accounting officers and authorities

Root cause	Recommendation	Commitment
Slow response by management and the pending finalisation of the merger with SA Tourism are negatively impacting BSA as key positions cannot be filled due to the moratorium in place. This affects the day-to-day running of the entity negatively.	Identify and fill critical senior management positions with experienced and skilled staff at BSA while the merger is still pending.	No commitment
Lack of adequate review and monitoring controls over the preparation of the BSA financial statements and lack of regular reviews and reconciliations of the financial statements at Stats SA	BSA and Stats SA should enhance the review process and/or controls to ensure that the financial statements are free from material misstatements	GRAP checklist utilised to review the various aspects on the financial statements

Root cause	Recommendation	Commitment
Lack of adequate and effective controls to prevent non-compliance with laws and regulations at Stats SA	Stats SA should enhance the controls relating to compliance with procurement and contract management, laws and regulations	SCM will always ensure that the local content requirements are stipulated in all future procurements of designated commodities.
Acting incumbents in the DG/HoD position are not included in the HoD PMDS	Acting incumbents in the DG/HoD positions should not act for long and vacant positions should be advertised and filled timeously	DPME to continue working with DPSA to enhance the performance management process of the heads of department.

Commitments by executive authority

Commitment	Status

4. Portfolio committee message

Slide 25

The portfolio committee should consider the following:

- ensuring that DPME is invited to be present in Parliament for all APPs tabling to ensure that DPME's inputs from the draft APP review process have been considered in the final APP
- ensuring that DPME is invited to be present in Parliament for all annual reports tabling to ensure that the portfolio/department's performance is aligned to DPME's assessments
- influencing the other committees to ensure that acting incumbents in the DG/HoD positions do not act for long and that vacant positions are advertised and filled timeously
- revising the DPSA's Performance Management Development System (PMDS) for heads of department to include acting incumbents for tracking purposes
- revising the head of department's KRAs to have more weight in audit outcomes and service delivery

- expediting the finalisation of the merger between Brand SA and SA Tourism – the delay is negatively affecting the performance of Brand SA because key positions cannot be filled due to the moratorium in place, which negatively affects the day-to-day running of the entity.

Proposed commitments

Commitment	Date of commitment