

BUDGETARY REVIEW AND
RECOMMENDATIONS REPORT | PFMA
2018-19

Briefing to Portfolio Committee on Transport



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 **fourteen auditees in the portfolio**, 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:

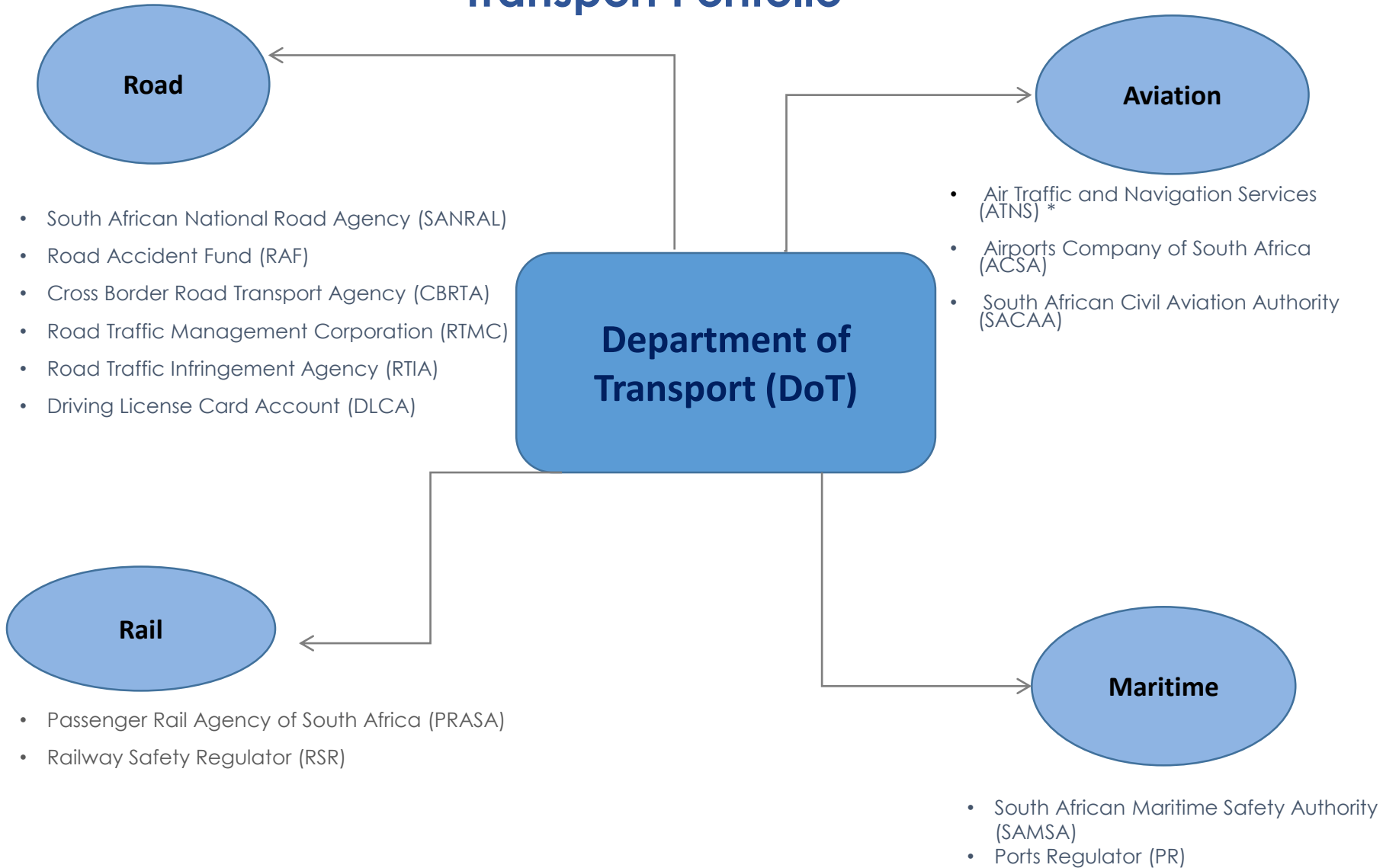
-  Improved
-  Unchanged
-  Regressed



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



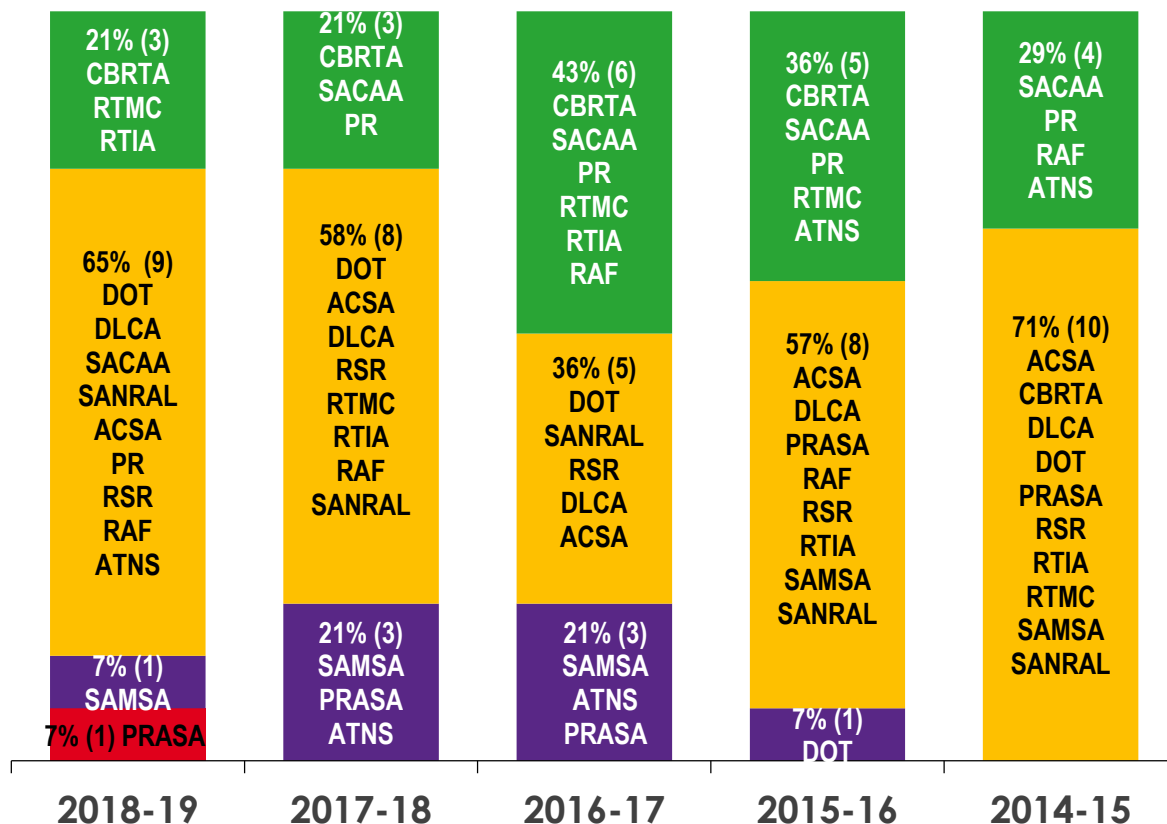
Transport Portfolio



• * Section 4(3) entity



Audit outcomes of portfolio over five years



Movement	
▲	3
▼	3
▶	8

- The audit outcomes of the portfolio have regressed over the five year period from 29% of unqualified audit opinion with no findings in 2014/15 to 21% in 2018/19. Some of the auditees have inconsistent audit outcomes.
- PRASA regressed from a qualified audit opinion from the prior year to a disclaimer due to significant material misstatements in the financial statements and limitation of scope imposed.
- SAMSA remained the same with qualified audit opinion as they could not address significant findings from the prior year.
- ATNS improved from a qualified opinion in the prior year to unqualified audit opinion with findings.
- We commend CBRTA for retaining its unqualified audit opinion with no findings for the past four years. RTMC and RTIA also improved their audit outcomes from unqualified with findings to unqualified with no findings.
- Financial statement preparation remains a concern in the portfolio as material adjustments were effected to annual financial statements (AFS) submitted for audit at ACSA, ATNS, DLCA, DOT, RSR, SANRAL and PRASA.





Credible financial reporting



Financial statements

Submission of financial statements by legislated date (all auditees)

AFS submitted without errors

Quality of final submission after audit

Movement



2018-19

2017-18

100%

93%

43%

50%

86%

79%

43% achieved unqualified opinions only because they corrected all misstatements identified during the audit

14% was not able to achieve credible financial reporting (SAMSA and PRASA)

SAMSA qualification areas

- Irregular expenditure
- Commitments
- Receivables
- Payables
- Property, plant and equipment

PRASA disclaimer areas

- Property, plant and equipment
- Unspent conditional grants
- Accumulated surplus
- Capital subsidy and grants amortised, subsidy received in advance, operational subsidy
- Fare revenue (comparative), Commitments
- Risk management, Irregular and fruitless and wasteful expenditure
- Cash flow statement, statement of comparison of budget and actual amounts.





Credible performance reporting

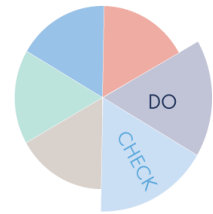


Performance report

	Movement	2018-19	2017-18
Performance report submitted without errors	▶	50%	50%
Quality of final submission after audit	▶	71%	71%
<p>21% had no material findings only because they corrected all misstatements identified during the audit</p>			
Reliable reporting of achievements (DOT, CBRTA, RTMC, DLCA, RSR, PR, RTIA, SAMSA, SACAA, ACSA)		71%	71%
Usefulness of performance indicators and targets (DOT, CBRTA, RTMC, DLCA, RSR, PR, RTIA, SAMSA, SACAA, RAF, ACSA, SANRAL)		85%	100%

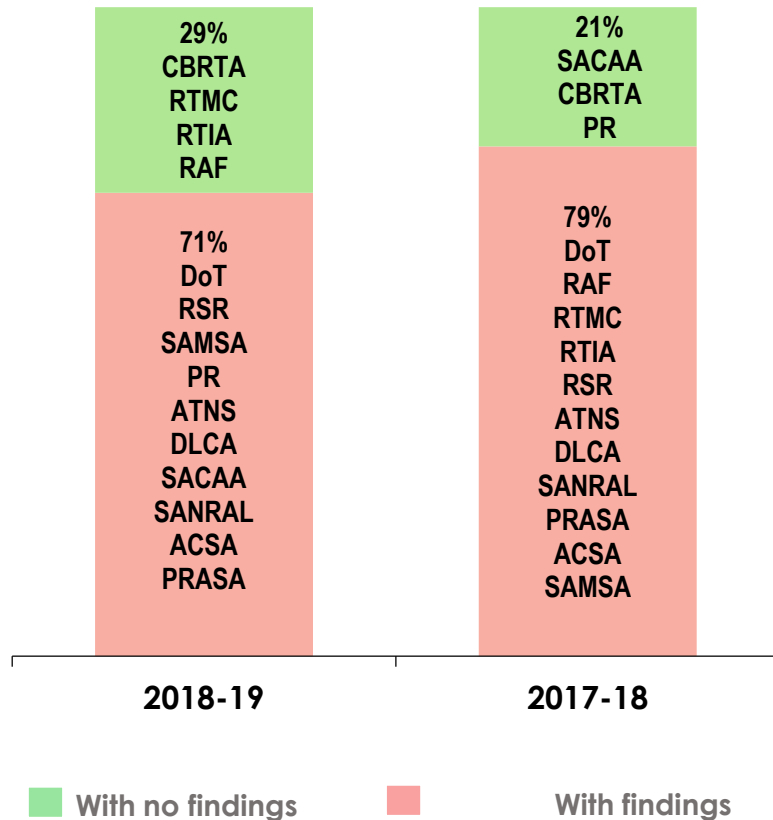
29% had material findings that resulted in a qualification or disclaimer conclusion (PRASA, ATNS, RAF)





Disregard for compliance with legislation

Findings on compliance with key legislation



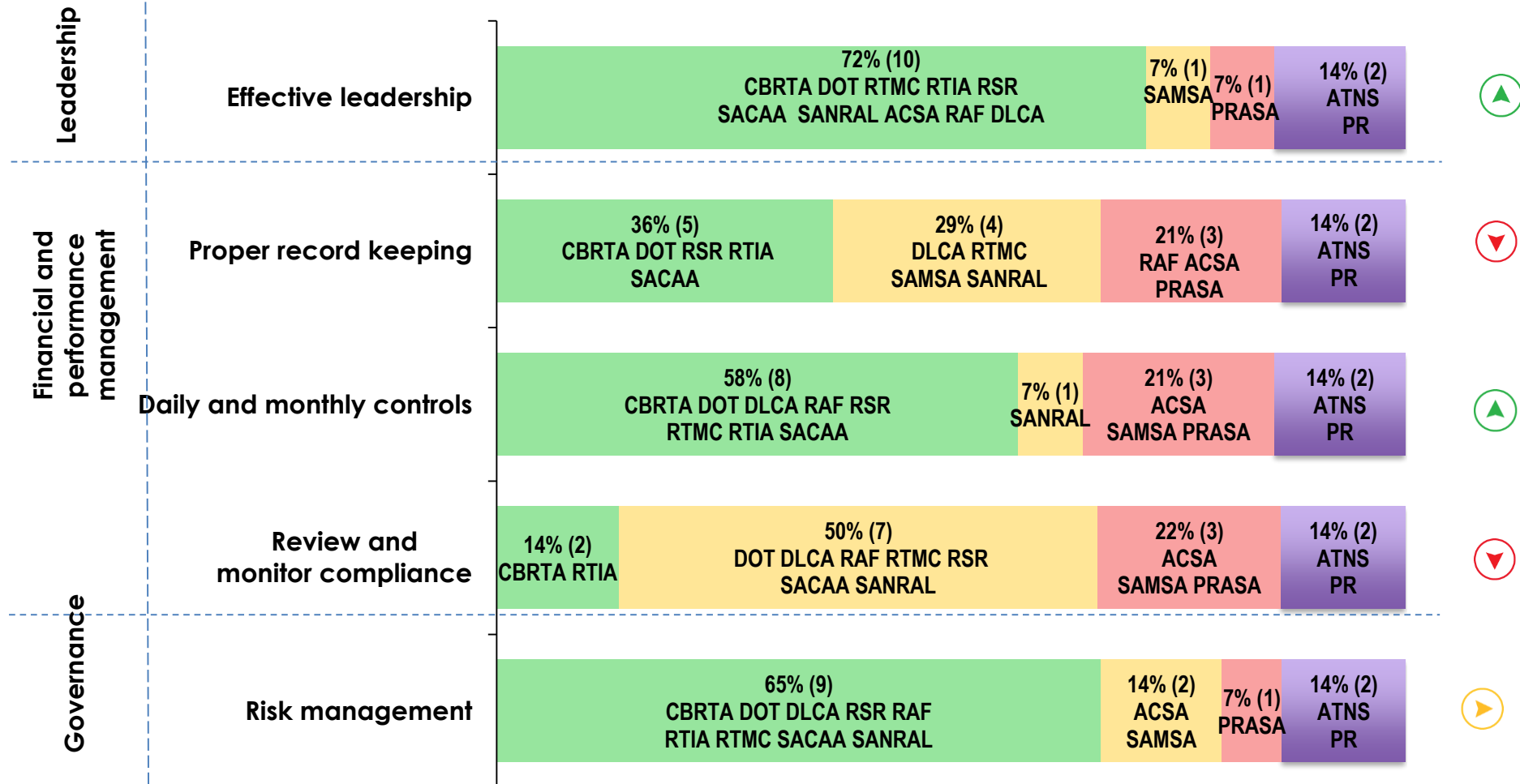
Top five non-compliance areas

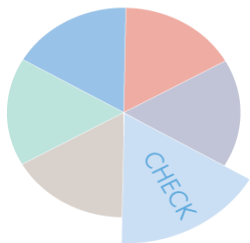
- Procurement and contract management (DOT, RSR, SACAA, DLCA, SAMSA, Ports Regulator, ACSA, SANRAL and PRASA)
- Material misstatements in submitted financial statements (DOT, RSR, ATNS, DLCA, SAMSA, ACSA, SANRAL and PRASA)
- Prevention of unauthorised, irregular and fruitless and wasteful expenditure (DOT, RSR, ATNS, SAMSA, ACSA, SANRAL and PRASA)
- Consequence management (ATNS, SAMSA, ACSA, SANRAL and PRASA)
- Revenue management (SAMSA)





Status of internal control



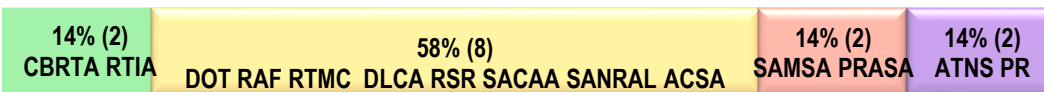


Assurance provided

Assurance

First level

Senior management



Accounting officer/authority



Executive authority

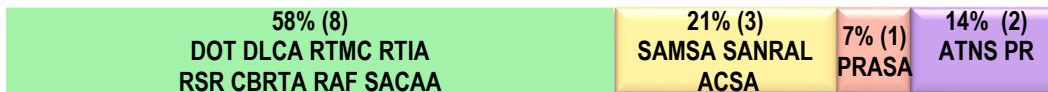


Second level

Internal audit unit



Audit committee



Financial health and financial management



Financial health

Material uncertainty exists whether **14%** of auditees can continue to operate in future
(RAF and SANRAL)

Revenue management

- Collection of debt – inability to collect monies owed and the resultant impairment of receivables due to amount owed being irrecoverable. **(RAF, DOT, DLCA, RTMC, SAMSA, RTIA, ACSA, SANRAL)**

Asset and liability management

- Deficit for the year – this was however not as a result of 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. **(RAF, RTIA, PRASA)**
- Current liabilities exceeding current assets indicating liquidity issues, which means that they will not be able to pay their creditors as payments become due. **(RAF, SANRAL)**
- 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. **(RAF)**

Cash management

- Negative cash balance - possible cash flow constraints resulting in a higher risk in the event of financial set-backs and the ability of the auditee to meet its obligations to provide basic services and its financial commitments will be compromised. **(DOT)**
- 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. **(RAF, RTIA)**



Of concern



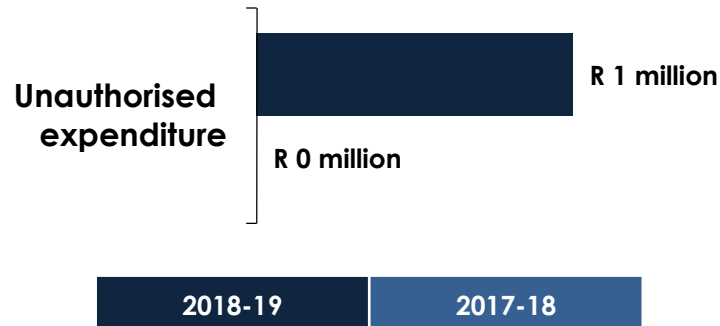
Intervention required

Unauthorised expenditure increase over 2 years

Definition

Expenditure not in accordance with the budget vote/ overspending of budget or programme

Unauthorised expenditure incurred by entities in portfolio



Nature of unauthorised expenditure

- DoT incurred unauthorised expenditure of R980 375 in the current financial year as expenditure that was incurred but not in accordance with the vote of the programme (Road Transport).
- No unauthorised expenditure was incurred in 2017-18.

Previous year unauthorised expenditure reported for investigation

There was no investigation required for the unauthorised expenditure of R177 million incurred in 2016-17 as it related to maintenance cost of the eNatis system that had to be paid as per court order.

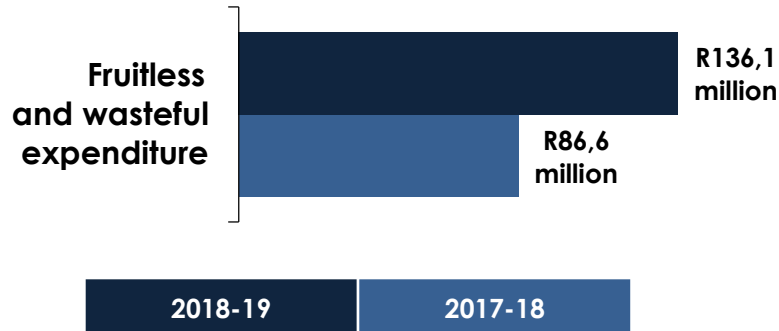
No unauthorised expenditure was incurred in 2017-18

Fruitless and wasteful expenditure decrease over 2 years

Definition

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

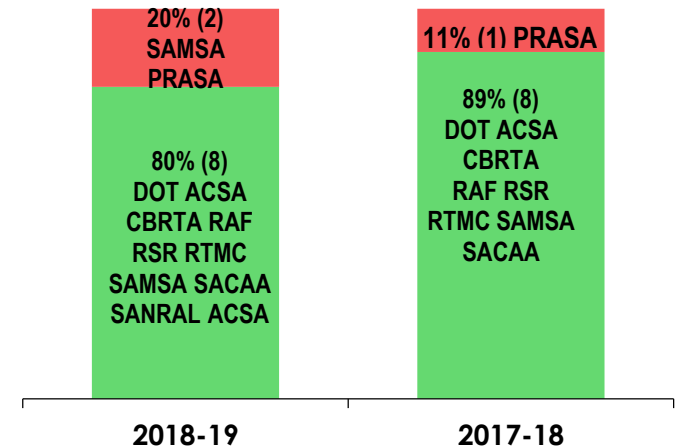
Fruitless and wasteful expenditure incurred by entities in portfolio



Previous year fruitless and wasteful expenditure reported for investigation

Nature of the fruitless and wasteful expenditure

- There was an increase in fruitless and wasteful expenditure from R86.6 million in 2017-18 to R136.1 million in 2018-19
- ACSA was the biggest contributor - fruitless and wasteful expenditure amounting to R63.2 million identified in the current year related to interest and penalties on revised tax liability resulting from a SARS audits. Fruitless and wasteful expenditure for ACSA increased with R60.7 million from the prior year.



Investigated Not investigated



Irregular expenditure decrease 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



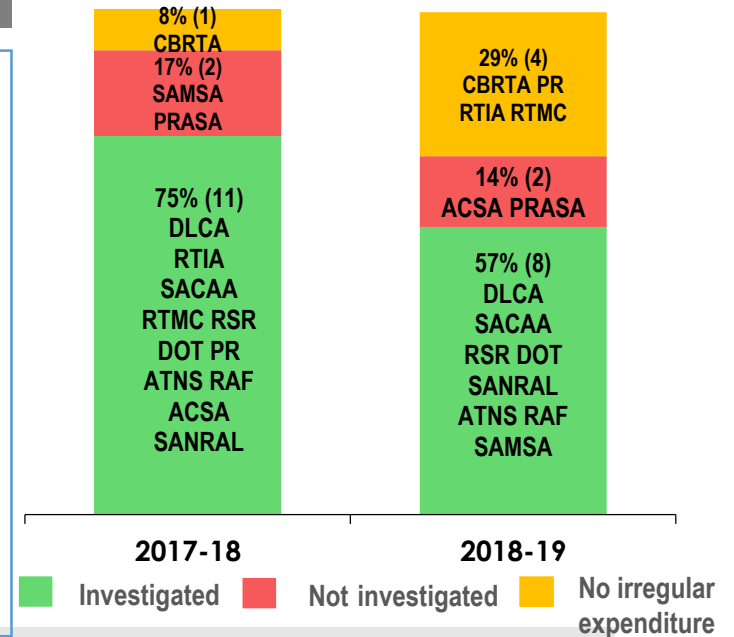
- R783,3 million represents non-compliance in 2018-19
- R11,1 million is expenditure relating to prior year non-compliance identified in the current year

Previous year irregular expenditure reported for investigation

Nature of irregular expenditure

Irregular Expenditure decreased with R1,1 billion from the prior year. PRASA, SANRAL and ACSA were the main contributors to irregular expenditure:

- PRASA (R3 037 million) – Competitive bidding not followed (R1 740 million), procurement not in accordance with PPPFA and SCM policy (R773 million), contract price exceeded (R167 million), payment without contract (R118 million) and other non-compliance with SCM prescripts (R239 million)
- SANRAL (R419 million) – Procurement without a competitive bidding process (R309,2million), non-compliance with other procurement process requirements (R103,5 million) and non-compliance with legislation on contracts (R6,5 million).
- ACSA (R264 million) – Non-compliance with CIDB requirements (R37.5 million), non-compliance with Preferential Procurement Policy Framework Act (R216.5 million) and non-compliance with National Treasury requirements (R10 million).



Supply chain management

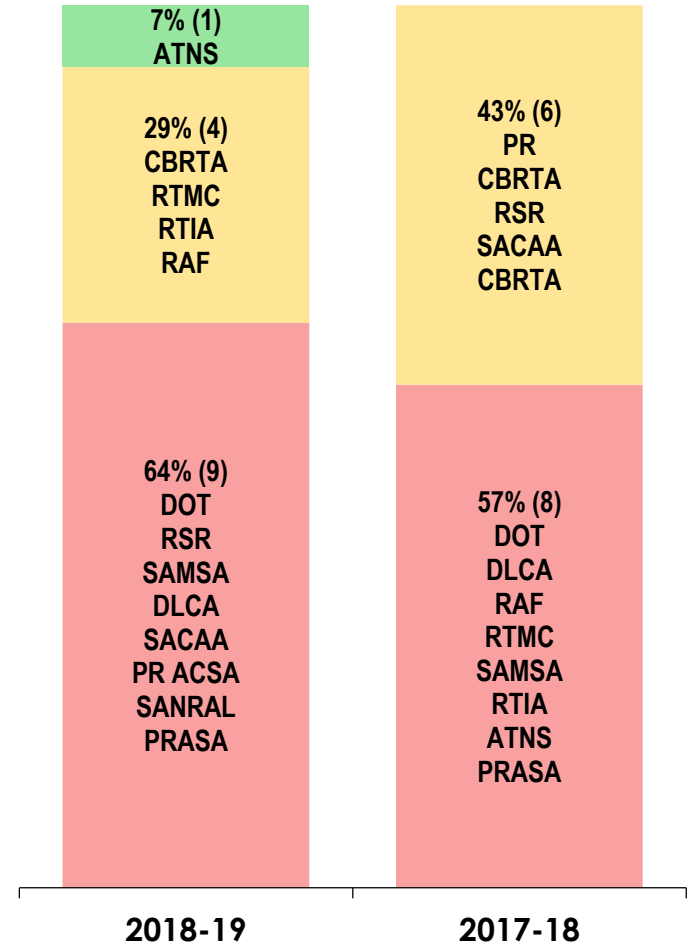


Regression in SCM compliance
(2018-19: 7% with no findings)

All SCM findings should be investigated

Most common findings on supply chain management

- Not able to audit procurement of **R112,3 million** due to **missing or incomplete information**
- **Uncompetitive and unfair procurement** processes at **69% of auditees**
- **Local content minimum threshold for local production** not adhered to **by three auditees**



With no findings



With findings

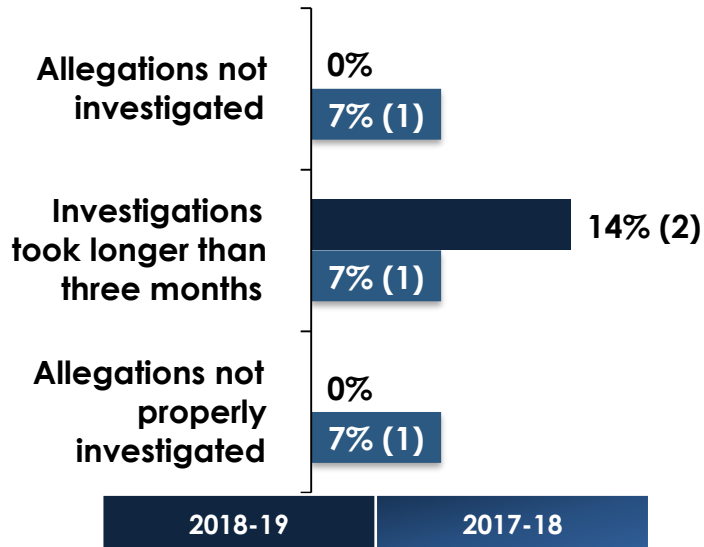


With material findings 21



Fraud and lack of consequences

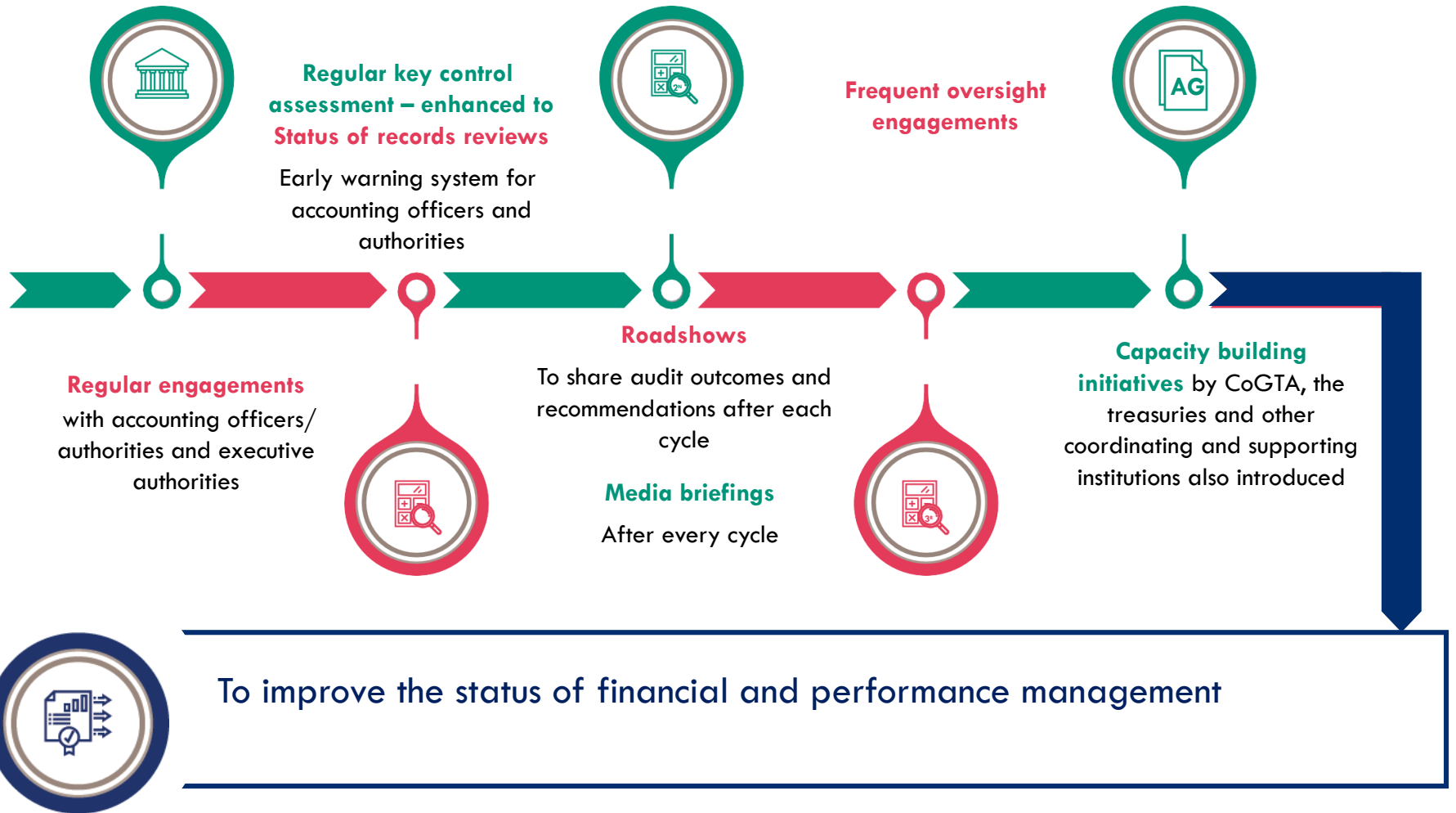
Allegations of financial and/or fraud and SCM misconduct (6 auditees)



- ACSA – Allegations were not investigated (2017-18)
- DOT and PRASA – Investigations of allegations took longer than three months (2018-19)
- DLCA – Investigations of allegations took longer than three months (2017-18)
- PRASA – Allegations were not properly investigated (2017-18)



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?

A phased-in approach was followed the implemented the

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.**



Implementation of expanded mandate (PAA amendments)



Commencement date proclaimed by the president as 1 April 2019

2018-19 implementation

To allow for establishing capacity and processes, a **phased approach** for implementation was agreed with SCoAG on the basis of:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

Type of material irregularity

Type of material irregularity = Material non-compliance (which would be reported in the audit report) that resulted in (or is likely to result in) a material financial loss

Selection of auditees

PRASA was selected for the phased-in implementation
Selection criteria

- Latest audit outcome not clean or unqualified with findings – except if there was a material finding on prevention or follow-up of irregular expenditure
- High irregular expenditure over the last three years
- Sufficient coverage across spheres of government and provinces.





Material irregularities identified (PRASA)

Material irregularity identified in the entities/department on portfolio

Nature of material irregularity

- *Unfair procurement process for the purchase of locomotives – See recommendation*
- *Competitive bidding process not followed in appointment of general overhaul and upgrade contractors – Investigation by SIU – To be followed up in 2019-20 audit*
- *Unfair procurement process followed in the appointment of signalling contractors*
- *Unfair award for the control of vegetation*
Investigation to be initiated – To be followed up in 2019-20 audit
- *Competitive bidding process not followed in the award relating to:*
 - *provision of bus services in the Western Cape*
 - *provision of surveillance services (drones)*
 - *provision of security services**Investigation to be initiated – To be followed up in 2019-20 audit*
- *Uncompetitive process followed in the award relating to:*
 - *Supply and delivery of signalling equipment*
 - *Repair and replacement of signalling equipment**Investigation to be initiated – To be followed up in 2019-20 audit*

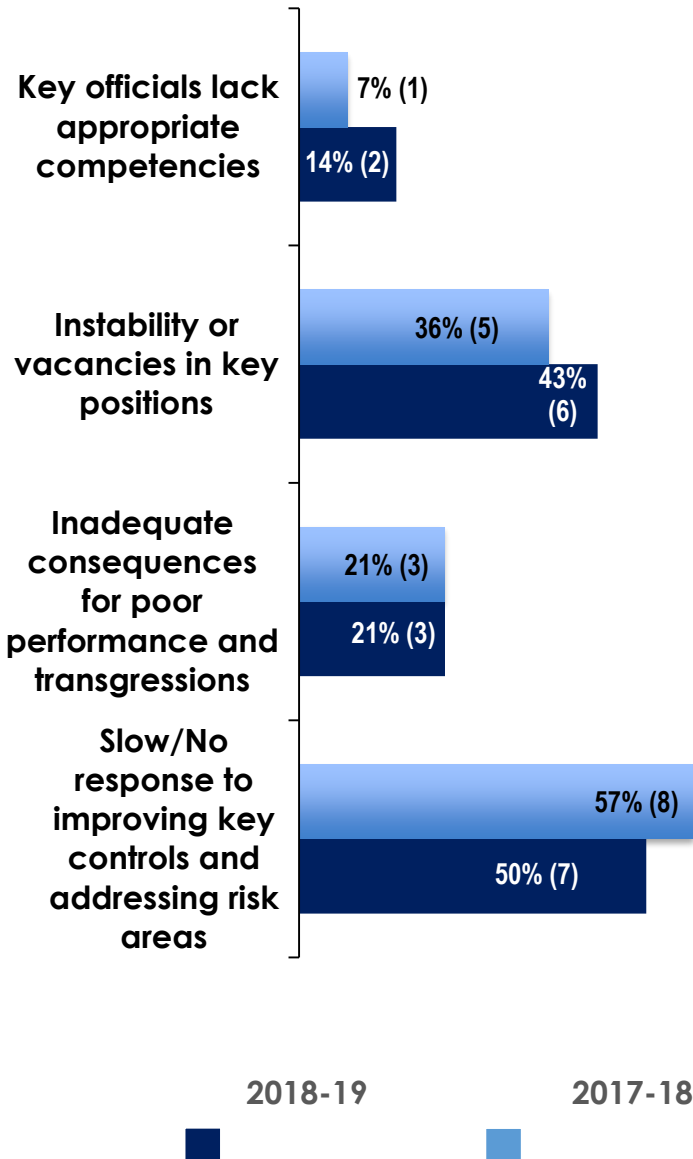
Stage of material irregularity

Recommendations

- a. *Appropriate action should be taken to ensure the second phase of the investigation is concluded*
- b. *Effective and appropriate disciplinary steps should be taken against employees found to be responsible*



Root causes



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



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**.



The **competency gap** among key officials **delays** the **improvement** in audit outcomes and results in **inefficiencies in service delivery**.



Instability and/or vacancies in key positions

Instability and vacancies in key positions (including Executive level) has contributed to the regression of audit outcomes.

- Instability at executive management level at PRASA including, among others the position of Group Chief Executive Officer (GCEO), Group Chief Financial Officer (GCFO), Chief Information Officer and Information Security Officer that were filled in an acting capacity for 2018/19. The position of GCFO was filled from 01 September 2019. This has continued to impact the entity negatively and had contributed to the significant deficiencies in the financial management, performance reporting and compliance monitoring processes.
- Instability at executive management level at ACSA and RAF including the position of the Chief Executive Officer and Chief Finance Officer that are vacant and have been filled on an acting capacity.
- The Board/accounting authority at RAF was appointed on an interim basis and the appointment was not done in accordance with the RAF Act. This has created the instability in leadership to provide effective oversight over the entity.
- At SAMSA the CEO position is vacant since May 2017 and the CFO was appointed during the year.
- At DLCA There is an acting head of entity, the incumbent changed during the year. There was uncertainty about the entity being taken back to DoT or remaining as is, hence no positions were filled. The CFO and Head of risk positions are still vacant.
- At DoT The director general (DG) position was filled by acting incumbents since 26 July 2016. The new DG was only appointed from 1 August 2019. There are a number of acting Deputy Directors Generals (DDGs).



Recommendations

To department and its entities

- Permanent boards in entities with a mix of appropriate skills and competencies should be appointed,
- Executive management positions should be filled with appropriately skilled and experienced personnel,
- Develop and implement action plans to address audit findings; and
- Implementation of a culture of consequence management.

To the portfolio committee

- Monitoring and regular follow up with the executive authority and the accounting officer/authority on :
 - Appointment of permanent boards and audit committees to ensure that they are fully constituted with members with the appropriate skills and experience for effective governance and oversight over the entities;
 - Management of vacancies to ensure stability of leadership; and
 - Progress on action plans put in place by the entities to address undesirable audit outcomes.
- The culture of consequence management should be enforced in the portfolio.



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