

PC BRIEFING NOTE



PFMA audit outcomes of the 2015-16 financial year

Portfolio:
Women in the Presidency
October 2016



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

CONTENTS

1.	Introduction	1
2.	Overall audit opinion history	2
3.	Unauthorised, Irregular and Fruitless and Wasteful expenditure	6
4.	Assurance providers	8
5.	Drivers of internal control	9
6.	Other AGSA reports	9
7.	Minister commitments and progress on these commitments	10
8.	Commitments from the Portfolio Committee	10

1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it 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 Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings in respect of the national department (Department of Women - DOW) and the constitutional institution (Commission of Gender Equality – CGE) in the portfolio for the 2015-16 financial year.

1.3 Role of the AGSA in the BRRR process

- Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the entities taking into consideration the objective of the committee to produce a BRRR.
- To provide the portfolio committee with applicable information and guidance on the Women in the Presidency portfolio’s 2015-16 audit outcomes so that they, the committee, can ensure effective oversight.
- To enable oversight to focus on areas that will lead to good governance.

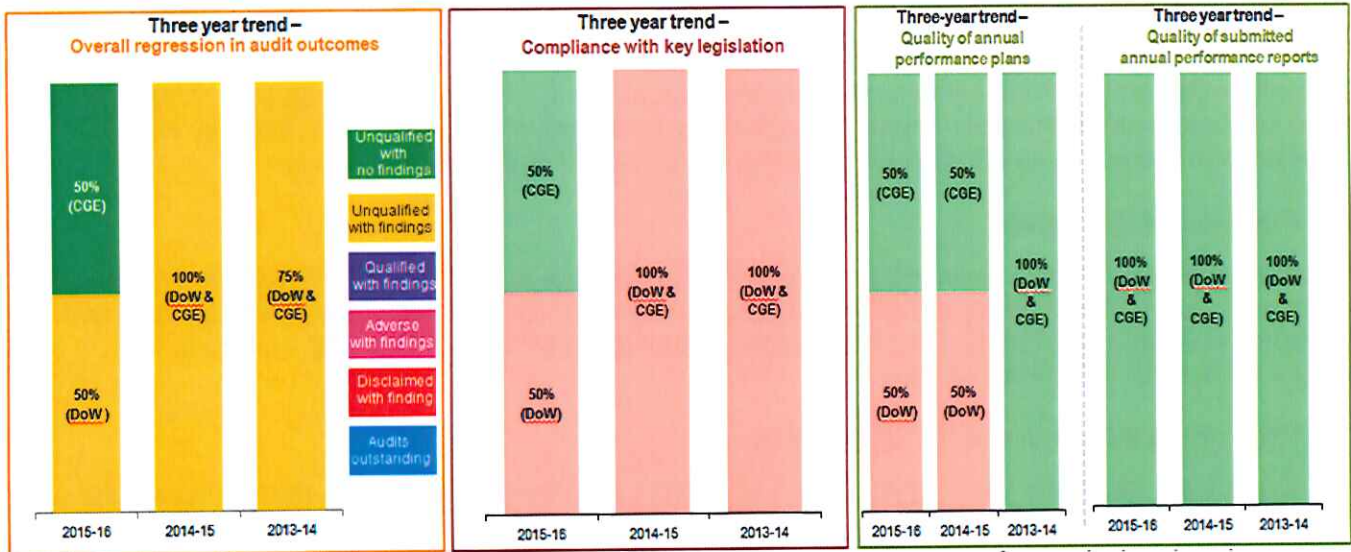
1.4 Funding

Department of Women	Budget R '000	Actual Expenditure R '000	Over / underspending R '000	Variance %
Programme 1: Administration	82 910	84 902	(1 992)	102.4%
Programme 2: Social, political and economic participation and empowerment	83 423	83 152	271	99.7%
Programme 3: Research, policy coordination and knowledge management	7 159	7 415	(256)	103.6%
Programme 4: Monitoring, evaluation and outreach	15 610	12 897	2 713	82.6%
Total	189 102	188 366	736	99.6%

Regardless of which programme it related to, the following areas of main expenditure were noted:

Main areas of expenditure	Budget R '000	Actual Expenditure R '000	Over / underspending R '000	Variance %
Current payments				
Compensation of employees	64 083	63 643	440	99.3%
Goods and services	53 353	53 782	(429)	100.8%
Transfers and subsidies	68 169	68 170	(1)	100.0%
Payment for capital assets	3 497	2 771	726	79.2%

2. Overall audit outcome history – Linked to three key audit areas for portfolio



The portfolio’s overall audit outcomes have improved due to:

- Commission for Gender Equality (CGE) achieved a financially unqualified audit outcome with no significant findings on compliance with legislation and predetermined objectives for the 2015-16 financial year.
- Department of Women (DoW) achieved an unqualified audit outcome, with findings on predetermined objectives and compliance with legislation, over the previous three financial years.

Compliance with legislation identified during the 2015-16 financial year at the DoW relates to the internal controls failed to prevent and detect or correct:

- material misstatements in the financial statements;
- authorised, irregular or fruitless and wasteful expenditure; and
- transactions where the procurement processes were not followed.

No significant non-compliance with key legislation was identified at the CGE.

The quality of annual performance plans stagnated due to:

- During 2015-16 financial year, the department report in the APR on strategic objectives, which were not included in the APP.
- During 2014-15 financial year the department did not report in the APR on all relevant objectives, indicators and targets which were included the APP’s.

2.1 Financial management

Department/ Entity	Finding	Root cause	Recommendation
Department of Women	Material misstatements of the appropriation statement, current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.	Slow response by management in fully addressing prior year’s audit findings. Lack of adequate supervision and review of the financial statements by management.	The department must develop systems to enable it to prepare a full set of financial statements on a monthly basis that is accurate and complete. The level of review should include management (Chief Financial Officer), internal audit and those charged with

Department/ Entity	Finding	Root cause	Recommendation
			governance. The financial statements prepared should be adequately supported by substantiating evidence to corroborate validity, accuracy and completeness thereof. The internal audit unit should be adequately capacitated to enable a proper and timely review and validation of the monthly/quarterly and annual financial statements and supporting schedules.
Commission for Gender Equity	There were no material misstatements identified.	Not applicable	Not applicable

2.2 Performance management

Department/ Entity	Finding	Root cause	Recommendation
Department of Women	<p>Programme 2: Social, political and economic participation and empowerment - Usefulness of reported performance information: Treasury Regulation 5.2.4 requires the strategic plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 38% important reported objectives were not consistent with those in the approved strategic plan and annual performance plan.</p> <p>Programme 3: Research, policy coordination and knowledge management - Usefulness of reported performance information: Treasury Regulation 5.2.4 requires the strategic plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% important reported objectives were not consistent with those in the approved strategic and annual performance plan.</p>	Action plans are inadequate or not implemented correctly/timely to address prior year matters reported.	<p>Management should adhere to the requirements of the FMPPI to ensure that the reported objectives included in the audit performance report are consistent with the planned objectives included in the annual performance plans.</p> <p>Internal audit should be involved in the review of the strategic plan and annual performance plan to ensure it complies with the FMPPI prior to submission.</p>
Commission for Gender Equity	No material findings identified.	Not applicable	Not applicable

2.3 Comments on additional AGSA interactions to help improve AOPO outcomes

Department/ Entity	Additional interaction/ add service	Impact / outcome
Department of Women	The draft 15-16 Annual Performance Plan was reviewed during the 14-15 interim audit cycle for usefulness by the AGSA and the findings were communicated timely to management. Management subsequently made the corrections as recommended by the AGSA; however the department revised the 15-16 APP during the last quarter of the financial year due a change in the strategic direction of the department.	There was no impact as the annual performance plan was revised.

2.4 Compliance with legislation (including supply chain management)

Department/ Entity	Finding	Root cause	Recommendation
Department of Women	<p><u>Budgets</u></p> <ul style="list-style-type: none"> Effective steps were not taken to prevent unauthorised expenditure, amounting to R2 237 000 as disclosed in note 8 of the AFS, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1. 	<p>Lack of budgetary controls.</p> <p>The accounting officer and senior management did not exercise adequate oversight responsibility compliance.</p> <p>The action plan was not adequately monitored to address internal and external audit findings and recommendations.</p> <p>Leadership has not addressed non-compliance by initiating investigations to determine who should be held accountable.</p>	<p>Monthly controls should be implemented to ensure actual expenditure does not exceed budgeted expenditure.</p> <p>The action plan needs to be implemented and intensified to fully address internal and external audit findings.</p> <p>Management should implement consequence management to hold transgressors accountable for their actions.</p> <p>Management should adequately exercise monitoring over the internal controls which were designed to prevent the non-compliance.</p>
	<p><u>Procurement and Contract Management:</u></p> <ul style="list-style-type: none"> Goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations as required by TR 16A6.1. Goods and services with a transaction value above R500 000 were procured without inviting competitive bids as required by TR 16A6.1. Thresholds for local content on designated sectors procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9. 		
	<p><u>Expenditure management:</u></p> <ul style="list-style-type: none"> Effective steps were not taken to prevent irregular expenditure, amounting to R8 556 198 as disclosed in note 23 of the AFS, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1. Effective steps were not taken to prevent fruitless and wasteful expenditure, amounting to R2 020 435 as disclosed in note 24 of the AFS, as required by section 38(1)(c)(ii) of the Public Finance 		

Department/ Entity	Finding	Root cause	Recommendation
	Management Act and Treasury Regulation 9.1.1.		
Commission for Gender Equality	No material findings identified.	Not applicable	Not applicable

2.5 Human resource management and consequence management

No significant matters to report.

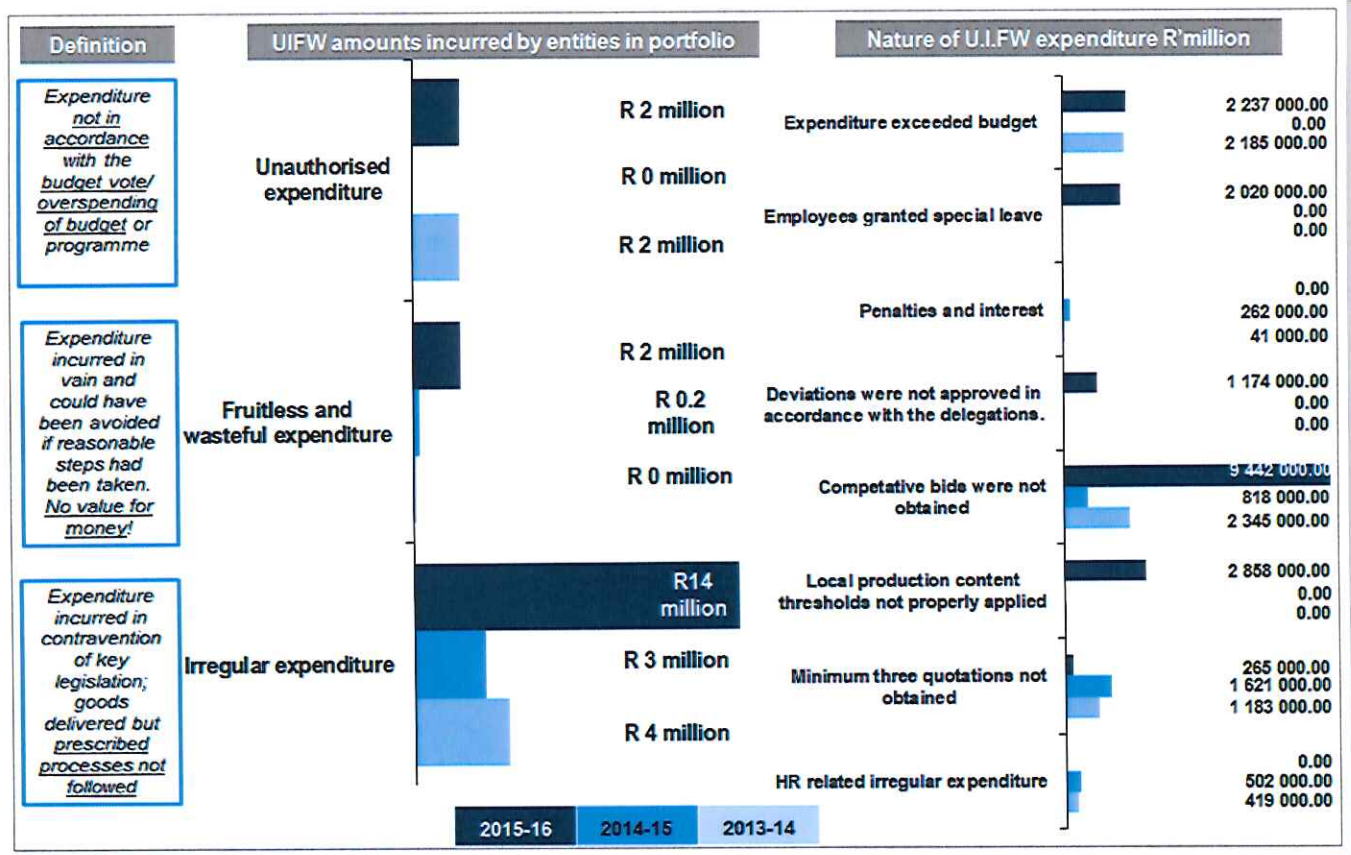
2.6 Financial Health

Department/ Entity	Finding	Root cause	Recommendation
Department of Women	The leadership and senior management of the department should address the following matters: <ul style="list-style-type: none"> the department's total expenditure on programme level exceeded total revenue by R2,237 million. a net liability position (total liabilities exceeded total assets) by R8,718 million. the department has a bank overdraft of R33,221 million. 	Lack of adequate budgeted monitoring controls.	Management should strengthen monitoring controls over the budget to ensure that expenditure is within the budget. Leadership must exercise oversight over the budget.
Commission for Gender Equality	No material findings identified.	Not applicable	Not applicable

2.7 Information technology (control environment)

The overall assessment of the IT environment reflects slow improvement over the past two years and previous recommendations relating to empowering staff with the necessary skills have not been implemented.

3. Unauthorised, Irregular and Fruitless and Wasteful expenditure (UIFW)



3.1 Unauthorised expenditure: Expenditure not in accordance with the budget vote

Department/ Entity		Unauthorised expenditure				
		Movement	Amount R 2015-16	Amount R 2014-15	Root cause	Recommendation
1	Department of Women	↑	2 237 000	0	Lack of budgetary monitoring controls.	Monthly controls should be implemented to ensure actual expenditure does not exceed the budget expenditure.
2	Commission for Gender Equality	N/A	0	0	Not applicable	Not applicable

3.2 Irregular expenditure: Expenditure incurred in contravention of key legislation

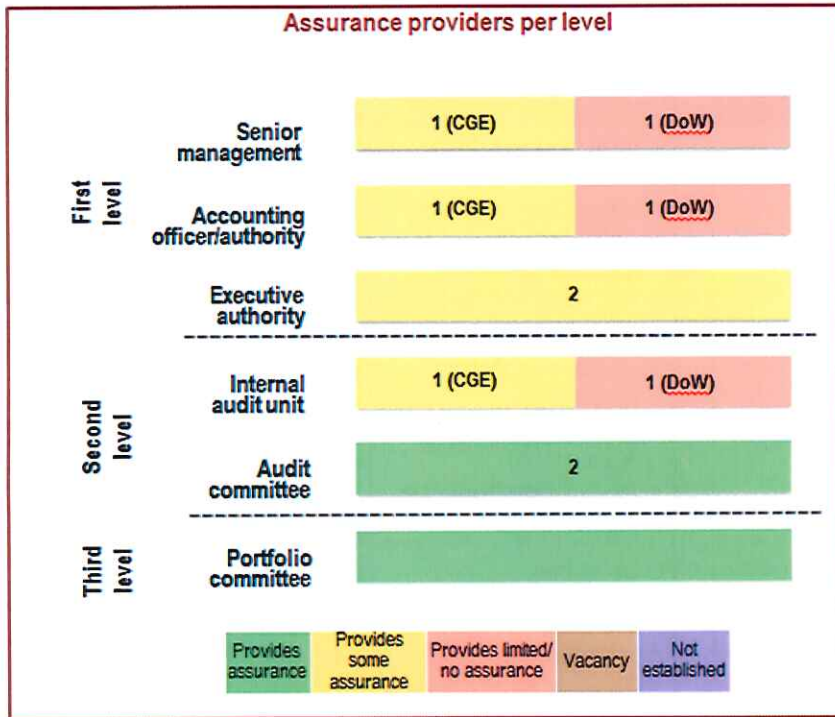
Department/ Entity		Irregular expenditure				
		Movement	Amount R 2015-16	Amount R 2014-15	Root cause	Recommendation
1	Department of Women	↑	8 556 000	8 234 000	The accounting officer and senior management did not exercise adequate	The action plan needs to be implemented and intensified to fully address internal and

Department/ Entity		Irregular expenditure				
		Movement	Amount R 2015-16	Amount R 2014-15	Root cause	Recommendation
					oversight responsibility compliance. The action plan was not adequately monitored to address internal and external audit findings and recommendations. Leadership has not addressed non-compliance by initiating investigations to determine who should be held accountable.	external audit findings. Management should implement consequence management to hold transgressors accountable for their actions. Management should adequately exercise monitoring over the internal controls which were designed to prevent the non-compliance.
2	Commission for Gender Equality	↓	0	1 041 669	Not applicable	Not applicable

3.3 Fruitless and wasteful expenditure: Expenditure that should not have been incurred (incurred in vain that could have been avoided and no value for money received)

Department/ Entity		Fruitless and wasteful expenditure				
		Movement	Amount R 2015-16	Amount R 2014-15	Root cause	Recommendation
1	Department of Women	↑	2 020 000	0	Relates to 4 employees granted special leave for a period of 6 months.	Management should ensure that proper controls and processes are applied to ensure the prevention of fruitless and wasteful expenditure. Fruitless and wasteful expenditure incurred should be investigated by management and the necessary action taken against officials who were responsible for the fruitless and wasteful expenditure.
2	Commission for Gender Equality	↑	245 649	134 654	Misuse of 3G cards by employees by accessing unauthorised sites not related to business.	Management should implement review controls to ensure that all transactions are adequately reviewed before being approved and recorded and controls to timely follow up on outstanding debtors.

4. Assurance providers



Senior management and the Accounting officer / authority

The assurance provided by key role players at the level of the accounting officer and senior management regressed as they did not ensure the adequacy of controls over the budget and compliance with the SCM prescripts.

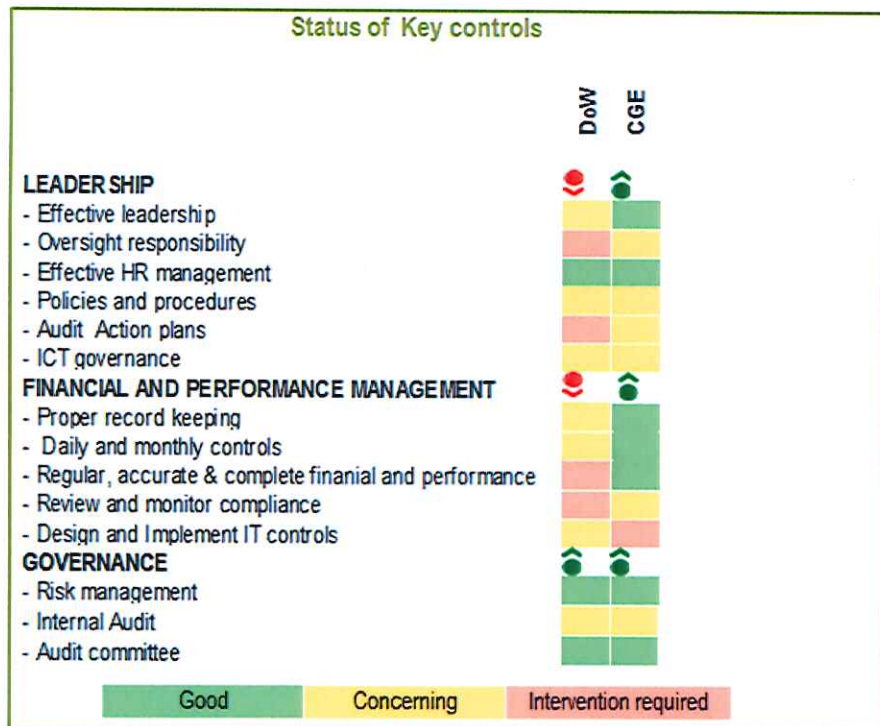
Internal audit

Although the internal audit unit completed the audits as per the plan, their processes failed to identify material non-compliance with legislation and the lack of budgetary controls.

Executive authority; audit & risk committee and portfolio committee

The assurance provided by the executive authority, the audit committee and the portfolio committee in their support to drive clean administration and improved audit outcomes, was adequate as they performed their oversight as required. However, management did not implement recommendations obtained from the portfolio committee and the audit and risk committee.

5. Drivers of internal controls



Focused interventions and commitments are required in order to maintain or improve the current status of the overall audit outcomes;

- The department needs to implement internal controls that will prevent and detect non-compliance with key legislation. Management are required to strengthen the review processes to ensure the controls are working as intended.
- Although CGE received repeat immaterial findings it could be difficult to maintain the audit outcomes if not addressed.
- The action plans of DoW and CGE need to be implemented and intensified to address internal and external audit findings and recommendations.

6. Other AGSA reports

No significant matters to report.

7. Minister commitments and progress on these commitments

We met with the minister on 22 July 2016. The audit outcomes for the department were discussed with the minister and the status of the implementation of the above commitments were followed up with the minister. New commitments will be solicited from the minister during the new financial year; however certain prior year commitments were reinforced. The minister requested that she would appreciate it if the audit team could continue with the quarterly engagements regarding the status of key controls in the portfolio. The following includes prior year commitments and new commitments made:

Focus area	Commitment	Due date	Status
Key risk areas	The minister committed to create capacity in key areas such as finance, human resources, internal audit and information technology. The focus would also be on performance management to ensure frequent assessments are undertaken.	31 March 2017	In process
	There will also be focus on performance management ensuring frequent assessments are undertaken.	31 March 2017	In process
	Request the department to do frequent financial and performance reporting to assist with proper governance and to ensure clean administration.	31 March 2017	New commitment
Audit committee engagements	Have regular interactions with the audit committee.	31 March 2016	Complete The audit committee met with the minister four (4) times during the financial year.

8. Commitments from the Portfolio committee

We recommended that the portfolio committee implement the following proposed commitments:

- The Portfolio Committee must request management to provide feedback on the implementation and progress of the action plan during quarterly reporting.
- The Portfolio Committee must request management to provide quarterly feedback on status of key controls.
- The portfolio committee should quarterly request management the accounting officers for a list of action taken against transgressors to held them accountable for their actions.