



PFMA 2016-17



# Budgetary review and recommendations report

Audit outcomes for the Public Enterprises portfolio

04 October 2017



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence

# 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.



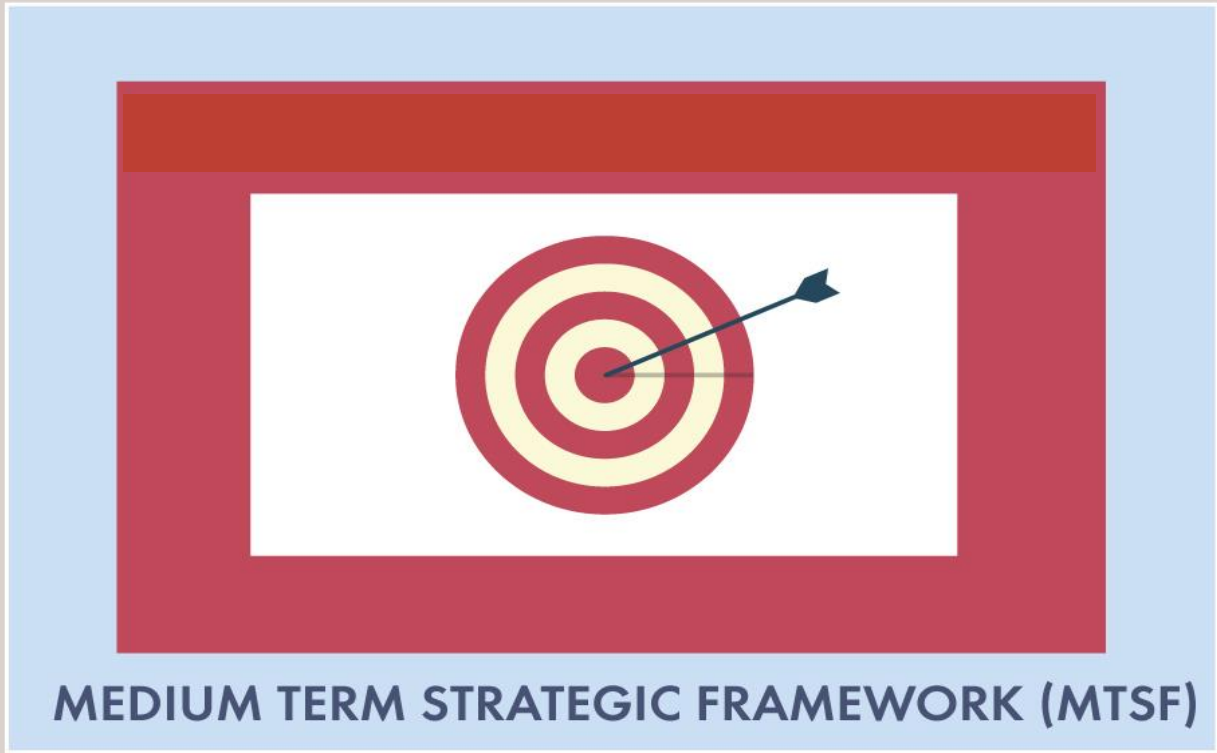
## Role of the AGSA in the reporting process

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)*.

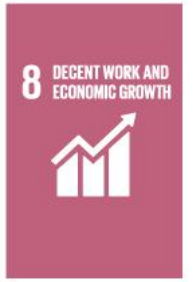




**NATIONAL DEVELOPMENT PLAN (NDP)**



**MEDIUM TERM STRATEGIC FRAMEWORK (MTSF)**



**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**



**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**

*"Plan-Do-Check-Act Cycle", also the Deming cycle , courtesy of the International Organization for Standardization*





**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**



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# The AGSA's Public Audit Act Promise and Focus



# Our annual audits examine 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



**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**



# The AGSA expresses the following different audit opinions:

## Unqualified opinion with no findings (clean audit)



- Auditee:
- Credible and reliable financial statements that are free of material misstatements
  - Useful and reliable performance as measured against predetermined objectives
  - complied with key legislation

## Financially unqualified opinion with findings



- Auditee:
- Credible and reliable financial statements that are free of material misstatements
  - Did not produce useful and reliable performance as measured against predetermined objectives
  - Did not comply with key legislation

## Qualified opinion



- Auditee:
- had material misstatements on specific areas in their financial statements, which could not be corrected before the finalisation of the audit report.

## 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



# Department of Public Enterprises portfolio



**public enterprises**

Department:  
Public Enterprises  
REPUBLIC OF SOUTH AFRICA

 Eskom | Powering your world

 **SAFCOL**  
OUR FORESTS. OUR FUTURE.

**TRANSNET**  


  
**sa express**  
we fly for you

 **DENEL** DENEL SOC LTD

  
**ALEXKOR**







# CONTENT

- Audit outcomes over four years for portfolio
- Movement in quality of submitted financial statements; annual performance report and compliance
- Movement table in outcome from prior year to current year
- Status of audit outstanding as at 31 August 2017
- Audits done by AGSA 2016/17 audit outcomes
  - Audit outcome for 2016/17 as compared to 2015/16
  - Conclusion on AOPO
  - Root causes
  - Status of internal controls
  - Irregular expenditure over three years
  - Assurance providers
- Audits not audited by the AGSA - 2016/17 audit outcomes
  - Audit outcome for the year ended 31 March 2017
  - Irregular expenditure and fruitless and wasteful expenditure incurred for the SOCs
- Status of key commitments by Minister








# The percentages in this presentation are based on the completed audits of seven auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Audits outstanding

Movement over a period is depicted as follows:

-  Improved
-  Unchanged
-  slight improvement
-  slight regression
-  Regressed

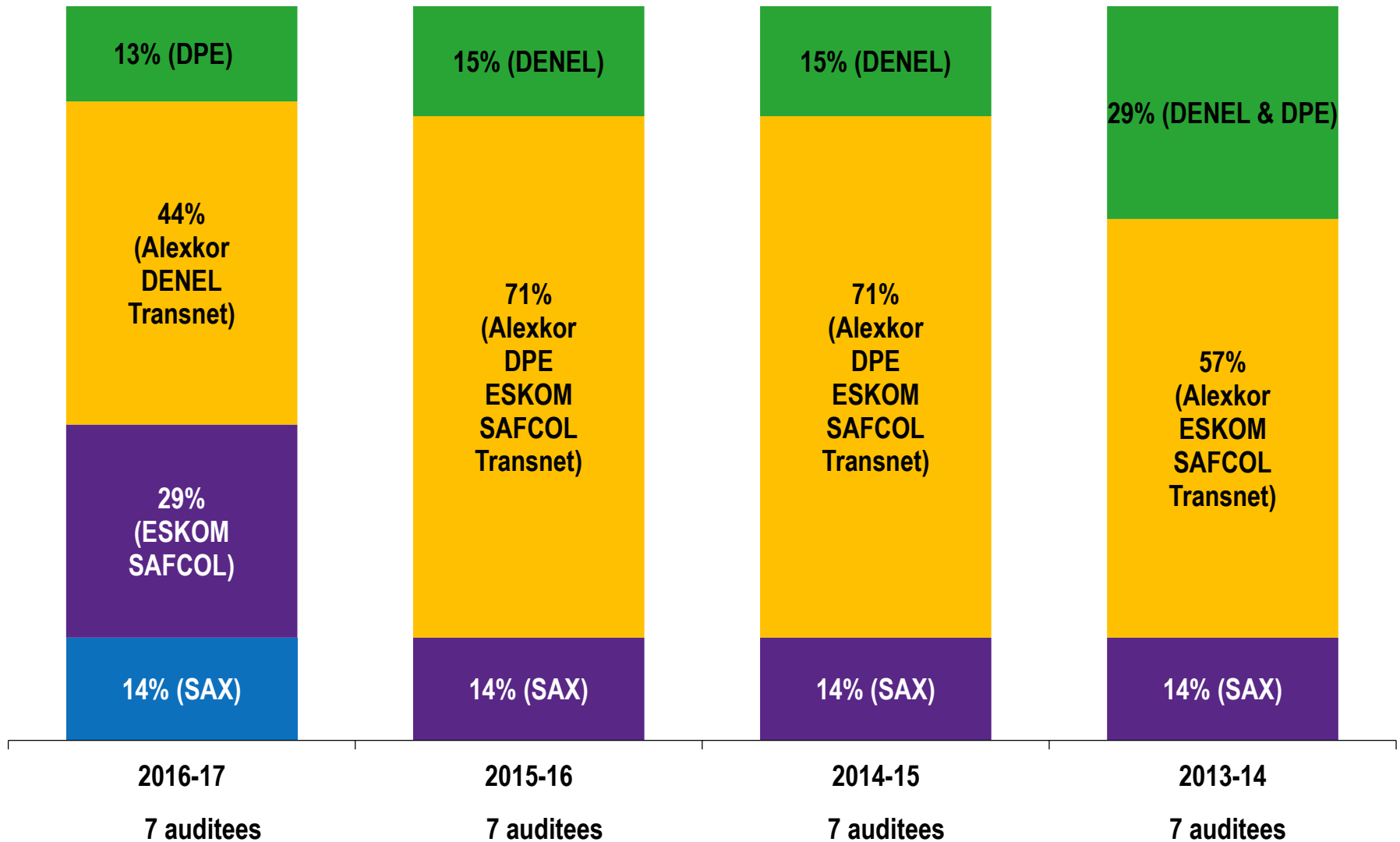


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## Audit outcomes comparisons for portfolio

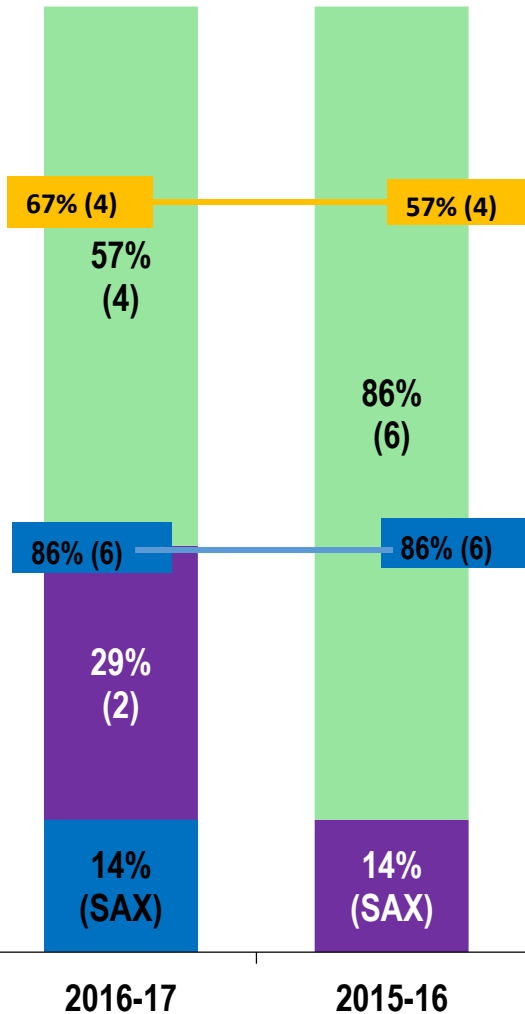


# Audit outcomes over four years

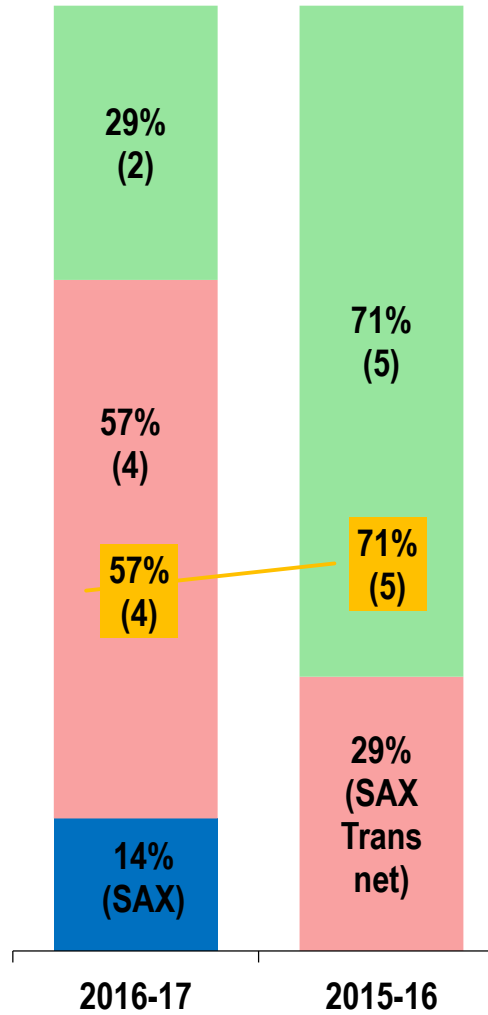


# Movement in the quality of financial statements, annual performance reports and compliance

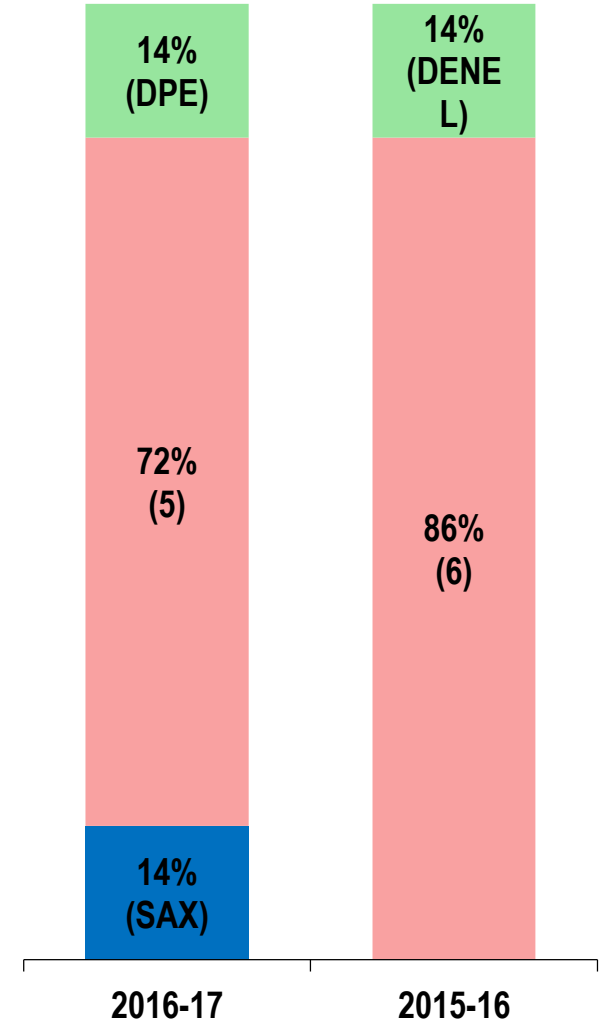
*Audit of financial statements*



*Findings on annual performance reports*



*Findings on compliance with key legislation*



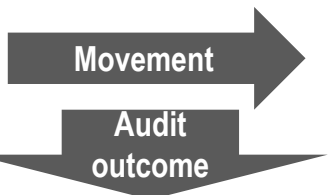
Unqualified Qualified Adverse Disclaimed

AFS submitted on time

AFS and APR submitted with no material misstatements

With no findings  
With findings

# Movement table (2016-17 over 2015-16)



	1 Improved	2 Unchanged	3 Regressed	1 Outstanding audits
Unqualified with no findings = 1	DPE			SA Express
Unqualified with findings = 3		Transnet Alexkor	DENEL	
Qualified with findings = 2			ESKOM SAFCOL	
Adverse with findings = 0				
Disclaimed with findings = 0				

Colour of the number indicates the audit opinion from which the auditee has moved.



# Status of audit that was outstanding at 31 August 2017

- South African Express Airways SOC Limited audit was outstanding on 31 August 2017 (our cut-off date)
- Reasons for the audit still being outstanding are as follows:
  - Late submission of financial statements for audit – actual submission date was 04 July 2017
  - Full asset register not provided to auditors – complete asset register was only received 31 August 2017
  - Going concern assessment approved by the Board was only provided on 18 August 2017
  - Final listing of irregular expenditure still outstanding to date from the entity 02 October 2017



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## The 2016-17 audit outcomes and key messages – AGSA audits



# Audits audited by the AGSA-16/17 audit outcomes



public enterprises

Department:  
Public Enterprises  
REPUBLIC OF SOUTH AFRICA



# Audit outcome for 2016/17 as compared to 2015/16



Auditee	Financial statements		Pre-determined objectives		Compliance with laws and regulations	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
DPE	Unqualified	Unqualified	No material findings	No material findings	No material findings	Material findings
SAFCOL	Qualified	Unqualified	Material findings	No material findings	Material findings	Material findings

The department is commended for being able to achieve a clean audit outcome. This was mainly due to the department filling the vacancy for the CFO and implementing year end processes that assisted in the improved financial outcome.

SAFCOL regressed in its outcome for financial statements due to inadequate SCM processes and lack of controls for the prevention and detection of irregular expenditure. The entity was not able to provide the auditors with adequate audit evidence to support the completeness of irregular expenditure disclosed in the financial statements.



# Predetermined objectives - Department of Public Enterprises

Programme	Material misstatements	Findings on material indicators		Movement from prior year
		Not useful	Not reliable	
Programme 2 – Legal and Governance	None	No material findings	No material findings	
Programme 3 – Portfolio management and strategic partnerships	None	No material findings	No material findings	

The department has three programmes

1. Administration
2. Legal and Governance
3. Portfolio management and strategic partnerships – main programme that assist the department with oversight for the portfolio



Good



Of concern





Intervention required

**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**



# Predetermined objectives - SAFCOL

Objective	Material misstatements	Findings on material indicators		Movement from prior year
		Not useful	Not reliable	
Objective 1 – Financial and Commercial Sustainability	Yes (corrected)	No material findings	No material findings	N/A – Objective was not selected for audit in the prior year
Objective 2 – Sustainable Forest Management and Expansion	No	No material findings	No material findings	
Objective 4 – Socio economic transformation	No	No material findings	Material findings	

 Good

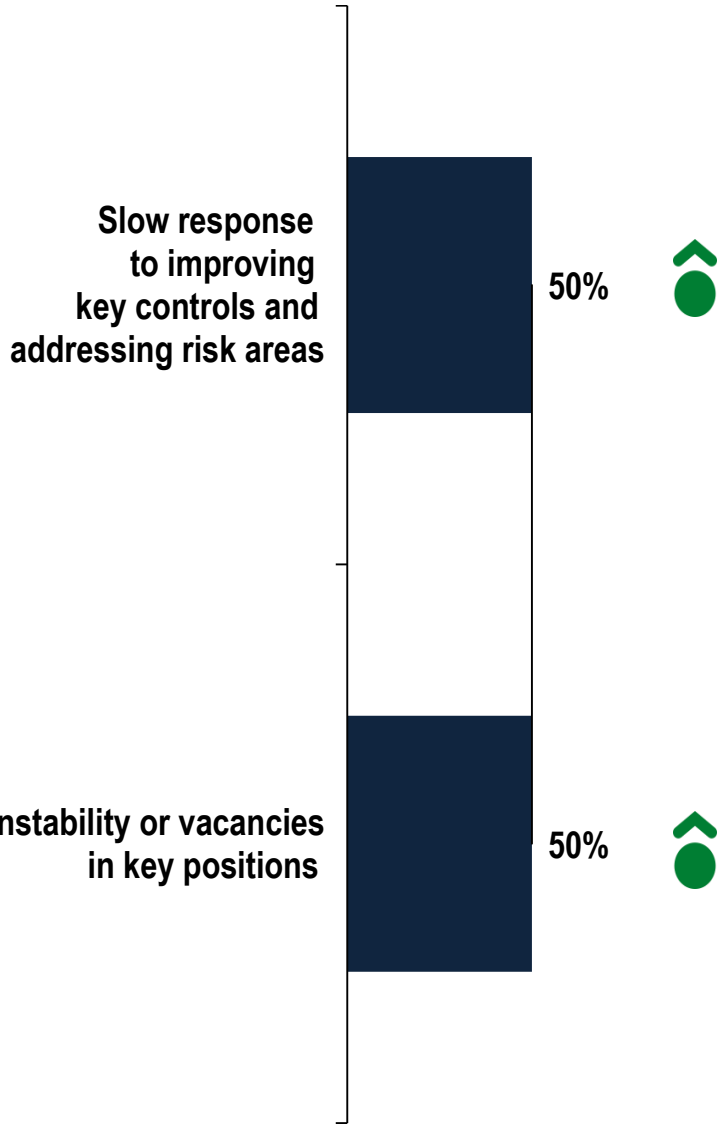
 Of concern

 Intervention required



**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**

# Root causes



Management (accounting authorities and senior management), the political leadership (executive authorities) 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**.



# Status of the drivers of internal controls

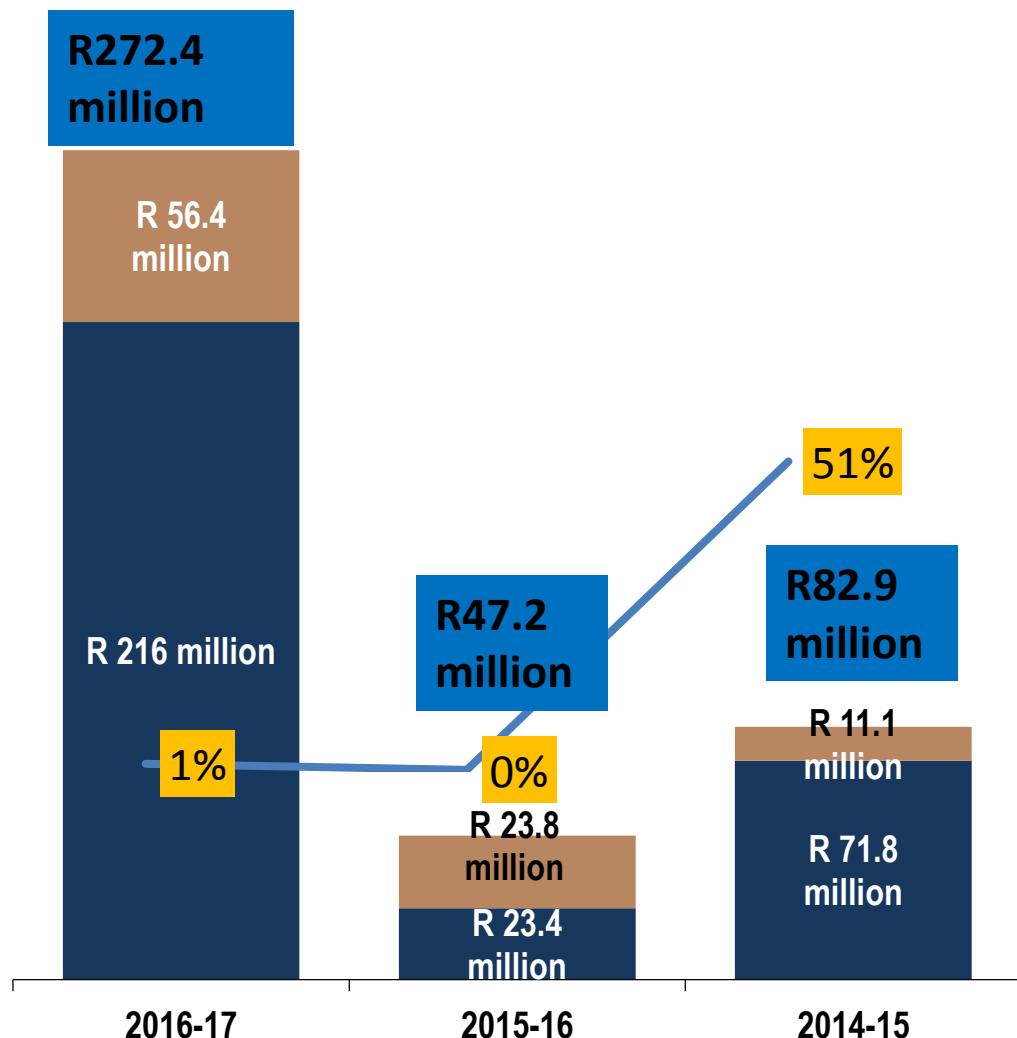
	DPE	SAFCOL
<b>LEADERSHIP</b>		
- Effective leadership		
- Oversight responsibility		
- Effective HR management		
- Policies and procedures		
- Audit action plans		
- ICT governance		
<b>FINANCIAL AND PERFORMANCE MANAGEMENT</b>		
- Proper record keeping		
- Daily and monthly controls		
- Regular, accurate & complete financial and performance reports		
- Review and monitor compliance		
- Design and implement IT controls		
<b>GOVERNANCE</b>		
- Risk management		
- Internal audit		
- Audit committee		
<b>Legends: Assessment colour</b>		
Good	In progress	Intervention required

There was conflicting performance within the portfolio as the department was able to improve and obtain a clean audit outcome. However, SAFCOL's performance had significant regression overall. Misstatements were identified in the financial statements that resulted in the qualified audit opinion. There is great concern on the record keeping ability of SAFCOL; its ability to prepare accurate and complete financial and performance information and adequately monitor compliance with legislation.





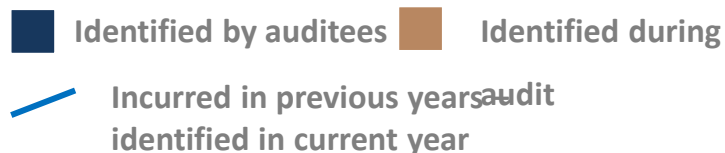
# Irregular expenditure over three years



## Nature

- 99% of occurrences caused by **non-compliance with SCM legislation**
- **Main areas of non-compliance** within SCM that caused irregular expenditure:
  - Procurement without competitive bidding or quotation process (45%)
  - Non-compliance with procurement process requirements (45%)
  - Non-compliance with legislation on contract management (10%)
- All of the irregular expenditure identified for the department related to prior year matters that had the investigation concluded in the current year.
- There was a significant regression in the performance of SAFCOL in relation to SCM as the entity lacked adequate processes for the identification and detection of irregular expenditure throughout the financial year.

- Amount included in the 2016-17 for SAFCOL was regarded to be incomplete as the auditors could not obtain reliance on the completeness of the irregular schedules provided by management
- Some of the irregular expenditure identified at SAFCOL in the prior year was investigated by management to determine if anyone was liable for the expenditure



# Recommendations for improving SCM findings



- A **less tolerant approach** by all parties, including those charged with governance and oversight, will result in accountability and consequences being enforced against those who intentionally fail to comply with legislation



- Strengthen the **SCM control environment** by appointing suitably skilled and qualified heads of SCM where vacancies exist and conduct regular training to improve skills – this will reduce possible irregular expenditure



- Implement **SCM compliance checklists** to supplement policies and procedures



- Submit **regular reports** to management and governance structures on compliance with key legislation



- **Corrective or disciplinary** action for misconduct



- Focus on **preventing irregular expenditure and non-compliance** – this should be a key performance measure in senior officials' contracts



# Conclusion on compliance with laws and regulations - SAFCOL

## Annual financial statements, performance and annual report

- Material misstatements of irregular expenditure and related parties in the consolidated and separate financial statements identified by the auditors were corrected and the supporting records were provided subsequently.
- Further, material misstatement of the cash flow statement of the separate financial statements and material misstatements of biological assets, property plant and equipment, cost of sales, fair value adjustments, operating expenditure and commitments in the consolidated financial statements, identified by the auditors were corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the consolidated and separate financial statements receiving a qualified audit opinion.

## Expenditure management

- Effective steps were not taken to prevent irregular expenditure, as required by section 51(1) (b) (ii) of the PFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph.
- Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R0.2 million, as disclosed in note 39 to the annual financial statements, in contravention of section 51(1)(b)(ii) of the PFMA.



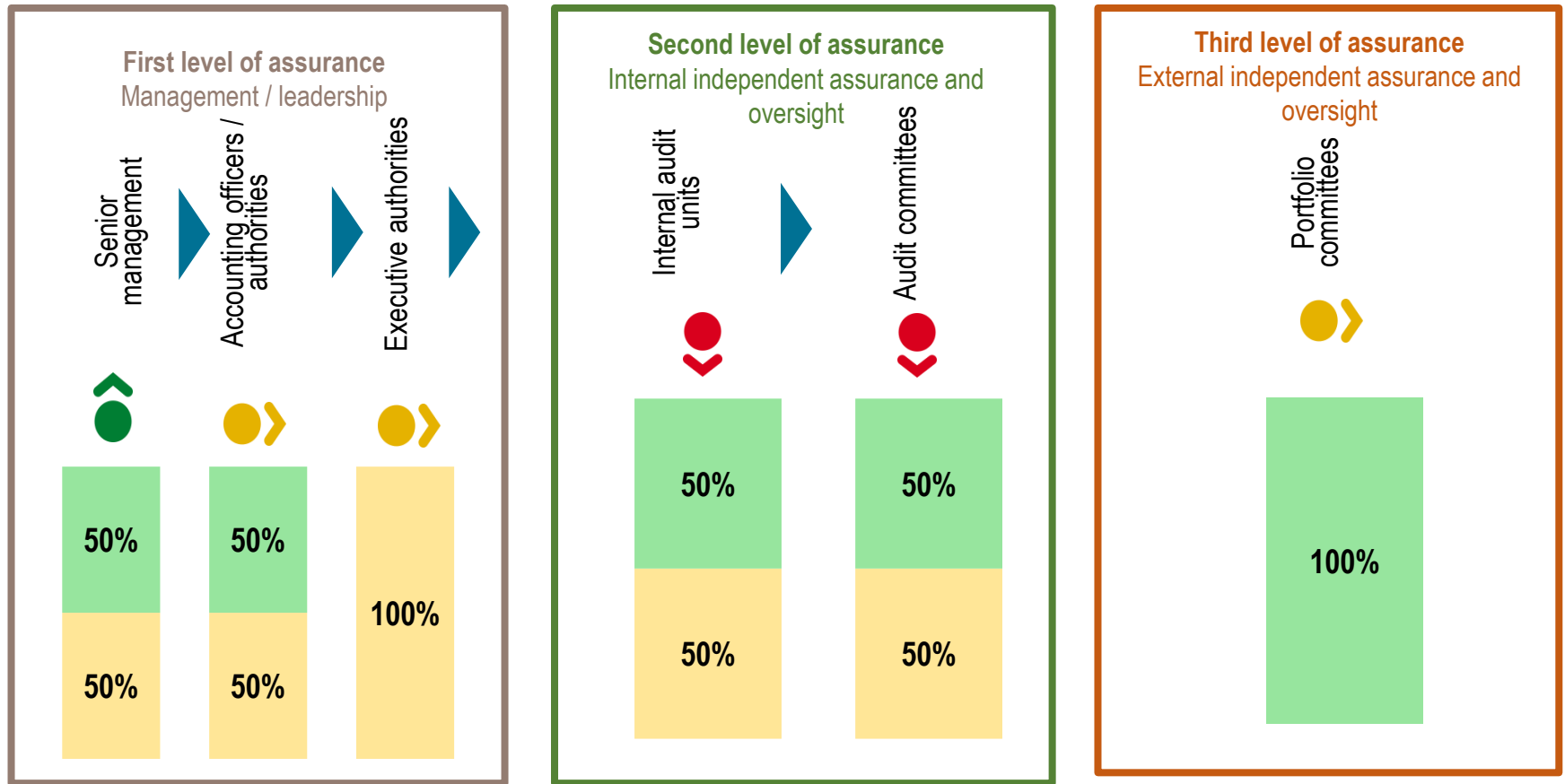
# Conclusion on compliance with laws and regulations - SAFCOL

## Asset management

- Proper control systems to safeguard and maintain assets were not implemented, as required by sections 50(1) (a) and 51(1) (c) of the PFMA as there was no approved asset management policy in place.



# Assurance providers



The regression in relation to internal audit and audit and risk committee was due to the following:

- Inadequate review processes by internal audit on the financial statements and performance report prior to submission for audit
- Lack of impact on oversight review by audit and risk committee as there was significant regression in the quality of financial statements and performance report submitted for audit

Provides assurance

Provides some assurance

Provides limited /  
no assurance

Not established

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## The section 4(3) audits



# Audits not audited by the AGSA-2016/17 audit outcomes







# Audit outcome for the year ended 31 March 2017

Auditee	Financial statements		Pre-determined objectives		Compliance with laws and regulations	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Alexkor	Unqualified	Unqualified	Material findings	No material findings	Material findings	Material findings
DENEL	Unqualified	Unqualified	No material findings	No material findings	Material findings	No material findings
ESKOM	Qualified	Unqualified	Material findings	No material findings	Material findings	Material findings
Transnet	Unqualified	Unqualified	Material findings	Material findings	Material findings	Material findings





# Predetermined objectives conclusion - SOCs

Auditee	Material misstatements	Findings on material indicators		Movement from prior year
		Not useful	Not reliable	
Alexkor	None	Material findings	Material findings	
DENEL	None	No material findings	No material findings	
ESKOM	Yes (corrected)	No material findings	Material findings	
Transnet	None	Material findings	Material findings	

 Good

 Of concern

 Intervention required

**ACCOUNTABILITY = PLAN + DO + CHECK + ACT**



# Irregular expenditure and fruitless and wasteful expenditure incurred for the SOCs

Description	Irregular expenditure (R)		Fruitless and wasteful expenditure (R)	
	2016-17	2015-16	2016-17	2015-16
Alexkor	10 400 000	6 940 000	3 266 000	200 000
DENEL	146 000 000	49 000 000	0	0
ESKOM	4 043 000 000	106 000 000	547 000 000	93 000 000
Transnet	922 500 000	25 100 000	21 900 000	3 900 000
<b>Total</b>	<b>5 121 400 000</b>	<b>187 040 000</b>	<b>572 166 000</b>	<b>97 100 000</b>



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**Follow up on commitments and  
proposed recommendations**



# Status of key commitments by Minister

The following were commitments made with Minister in relation to the performance of the department:

Recommendation to address internal control deficiencies	Status of implementation
Submission of financial statements for audit that are free from material misstatement	Implemented
Improving internal control processes in the prevention and detection of irregular expenditure	Implemented
Ensuring clean administration for the department in order to lead as an example for the portfolio	Implemented

The following were commitments made with the Minister in relation to the oversight function of the department to the SOCs:

Recommendation to address internal control deficiencies	Status of implementation
Oversight meetings with Chairpersons of Boards and audit and risk committee within the portfolio – forums have been set up, consistent occurrence of meetings needs to happen	In progress
DPE officials to attend board meetings and audit and risk committee meetings for SOCs as observers	Not implemented
Quarterly engagements with DPE officials and executive management of SOCs	Implemented
Concluding of the Government Shareholder Management Act (SOC reform)	In progress
Supporting SOCs to ensure they conduct business in a financial sustainable manner without government support	In progress



# Proposed recommendations for implementation by Portfolio Committee

- PC must request management to provide feedback on the implementation and progress of the action plans to address poor audit outcomes for the DPE portfolio during quarterly reporting and monitor the progress of actions implemented.
- A list of action taken against transgressors must be provided quarterly to PC for follow up for all irregular and fruitless and wasteful expenditure incurred in relation to the DPE portfolio
- The PC should monitor implementation of commitments by accounting officers/authorities and Executive Authority





CORRUPTION

C

=

M

+

D

-

A

MONOPOLY

DISCRETION

ACCOUNTABILITY



#AGSA

#AntiCorruption

Source: Robert Klitgaard (academic anti-corruption research)

ACCOUNTABILITY = PLAN + DO + CHECK + ACT

THANK YOU



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