

Briefing to Portfolio Committee on Trade and Industry

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)*.



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Our focus



Our annual audit examines three areas



1 FAIR PRESENTATION AND
RELIABILITY OF FINANCIAL
STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE INFORMATION
FOR PREDETERMINED
OBJECTIVES

3 COMPLIANCE WITH KEY
LEGISLATION ON FINANCIAL
AND PERFORMANCE
MANAGEMENT

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

The percentages in this presentation are calculated based on the completed audits of 9 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

DTI – Department of Trade and Industry

CIPC – Companies and Intellectual Property Commission

CT – Companies Tribunal

NCC – National Consumer Commission

NCT – National Consumer Tribunal

NCR – National Credit Regulator

NGB – National Gambling Board

NRCS – National Regulator for Compulsory Specifications

ECIC - Export Credit Insurance Corporation

Movement over the previous year is depicted as follows:

 Improved

 Unchanged

Movement of 5% or less:

 slight improvement

 slight regression

 Regressed



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The 2017-18 audit outcomes

ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Little improvement in plan-do-check-act cycle



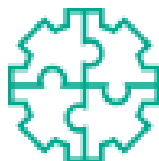
Portfolio snapshot (2017-18)



Clean audits: 78%
(2016-17: 60%)



**Quality financial
statements: 89%**
(2016-17: 90%)



**Quality performance
reports: 100%**
(2016-17: 90%)

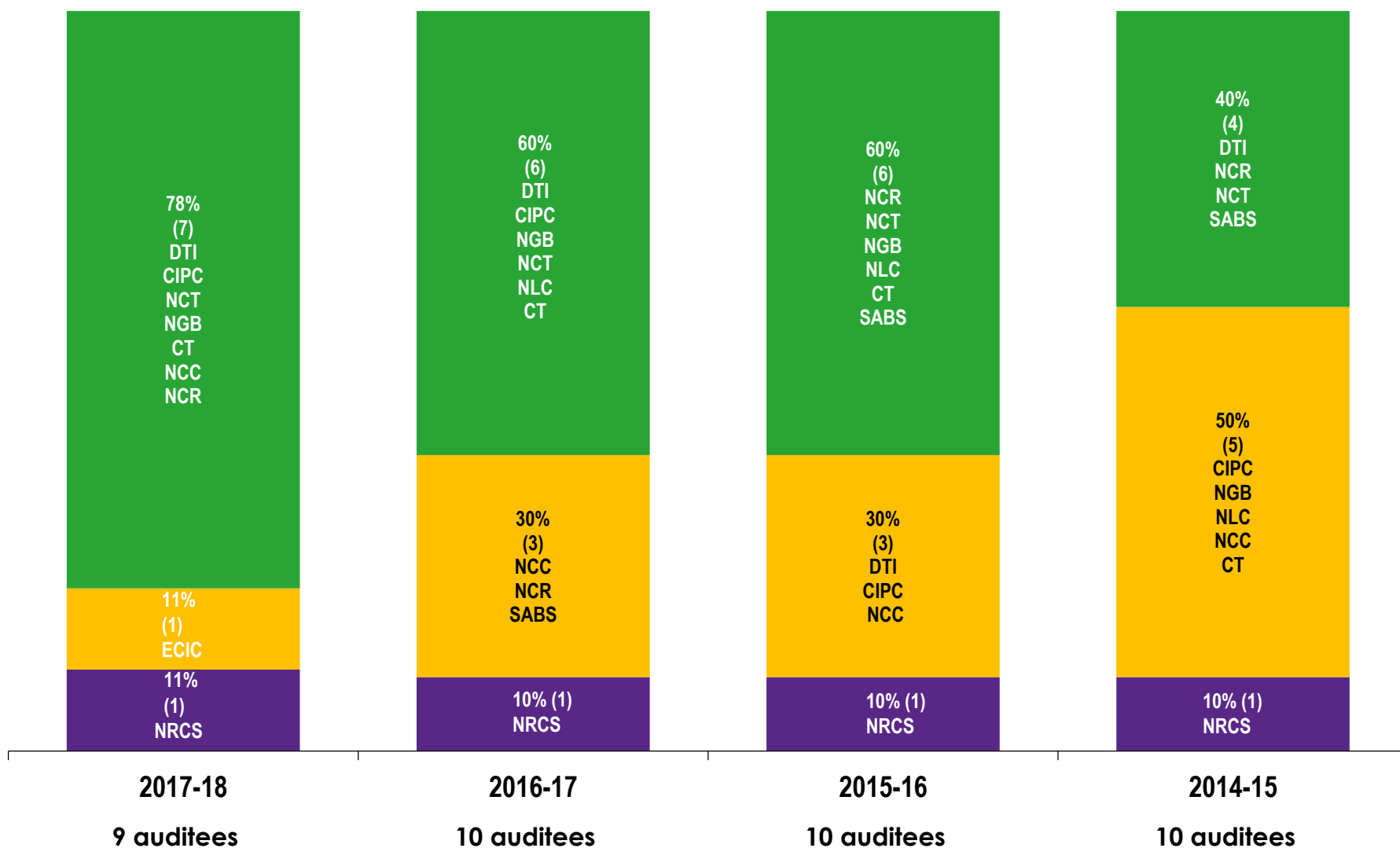


**No findings on compliance
with legislation: 78%**
(2016-17: 60%)



**Irregular expenditure:
R7.6m**
(2016-17: R11.4m)

Audit outcomes of portfolio over four years



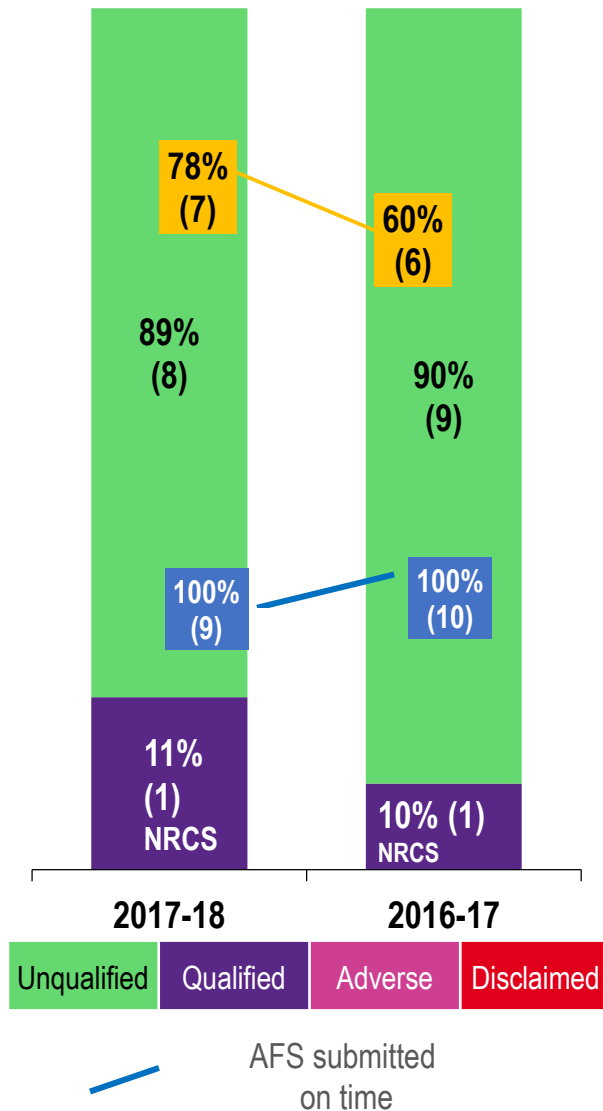
Movement table (2017-18 over 2016-17)

Audit outcome	MOVEMENT				
	<div>2</div> Improved	<div>6</div> Unchanged	<div>1</div> Regressed	<div>0</div> New auditee	<div>0</div> + <div>0</div> Outstanding audits
Unqualified with no findings = 7	NCC NCR	DTI, CIPC NCT, NGB CT			
Unqualified with findings = 1			ECIC		
Qualified with findings = 1		NRCS			
Adverse with findings = 0					
Disclaimed with findings = 0					

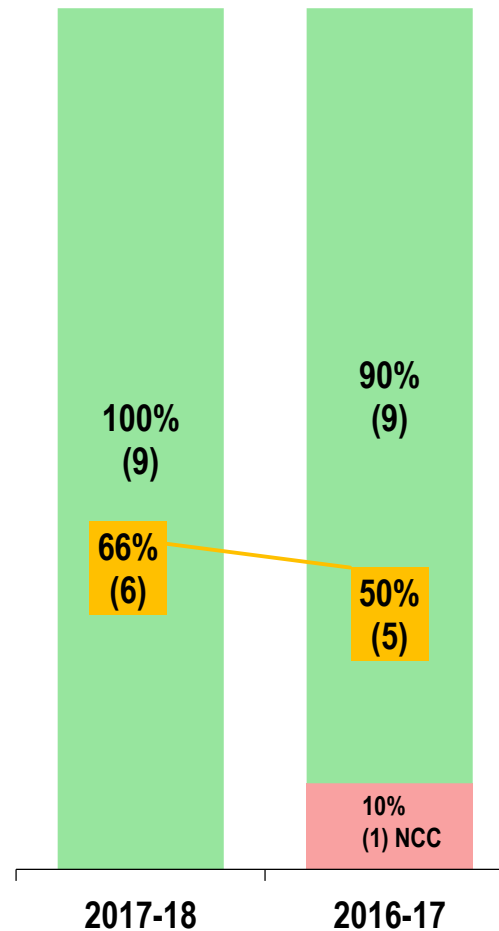
Colour of the number indicates the audit opinion from which the auditee has moved.

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

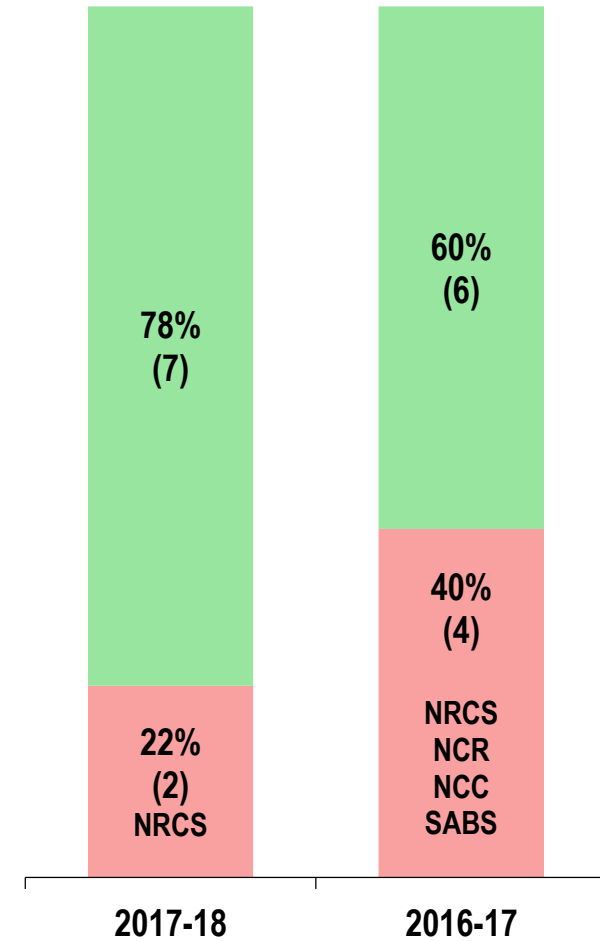
Audit of financial statements



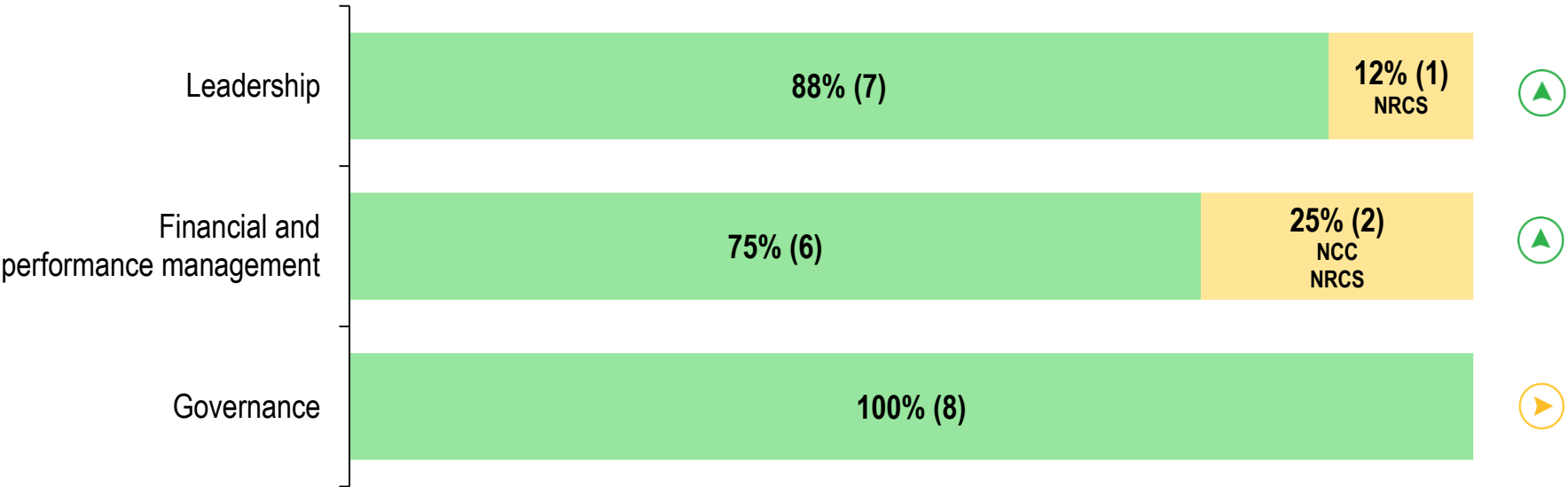
Findings on annual performance reports



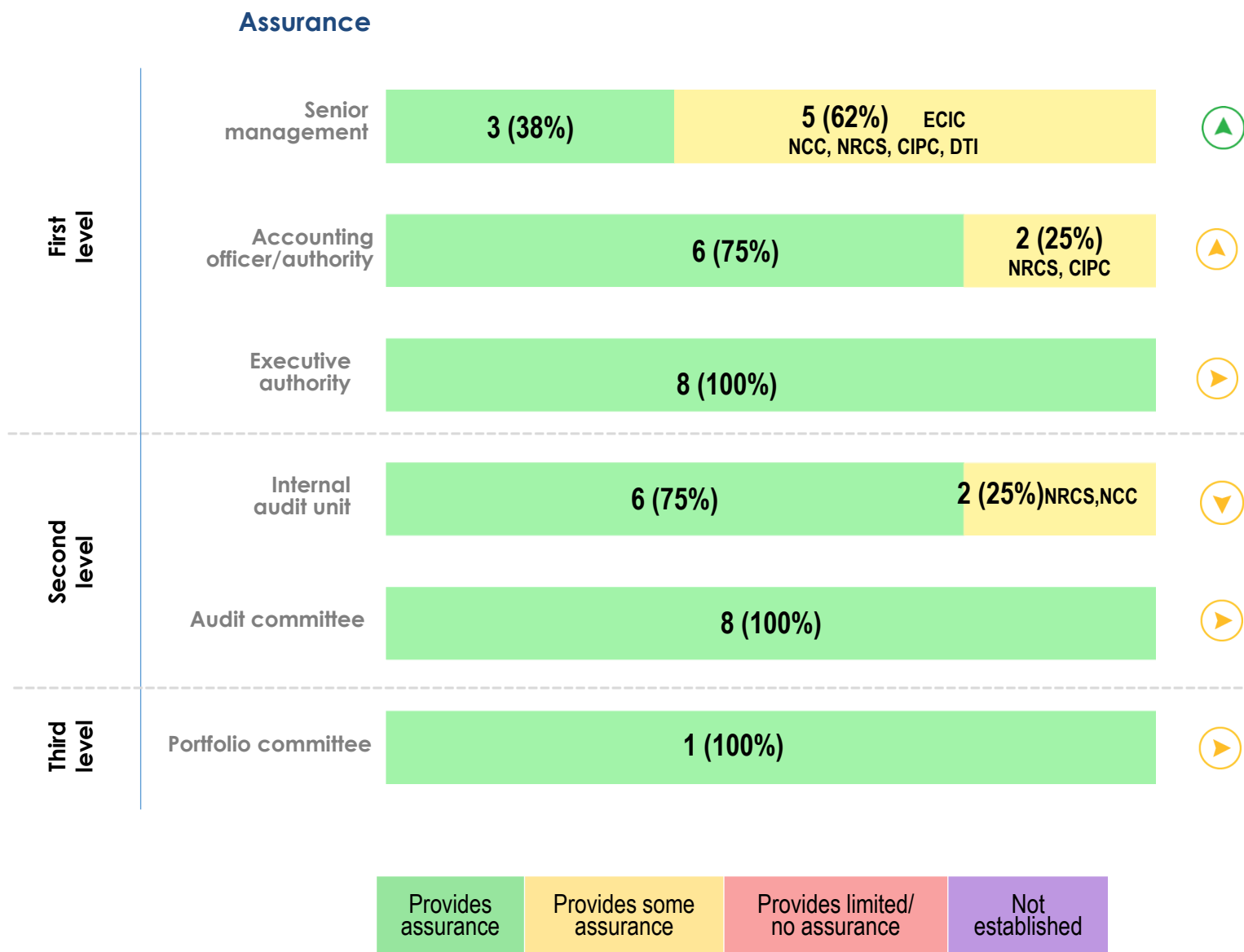
Findings on compliance with key legislation



Status of internal control



Assurance provided

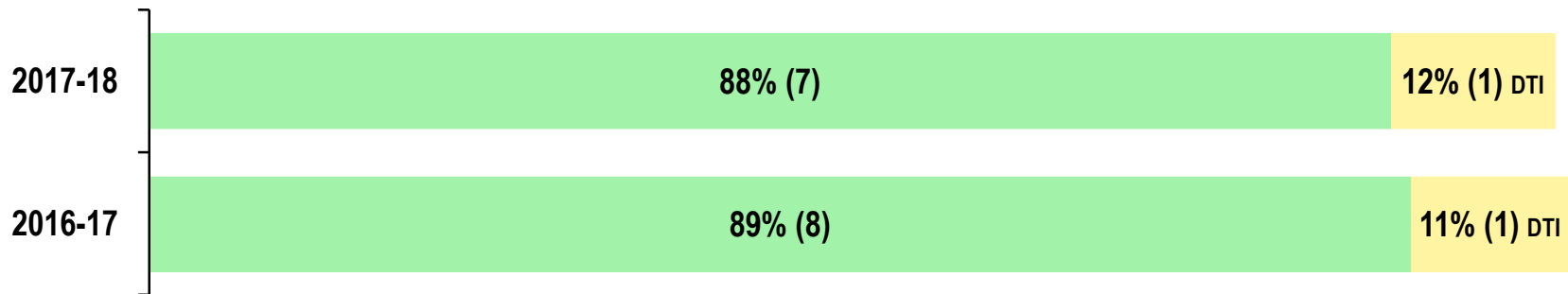


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Financial health and financial management

Financial health

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



Key concerns identified

- Although an overall improvement in financial health for the portfolio, the department remained with more than two unfavourable indicators:
 - Amount of 30+ day accruals
 - Accrual-adjusted net current liability position was realised
 - Accrual-adjusted net liability position was realised

- Two or less unfavourable indicators
- More than two unfavourable indicators
- Significant doubt that operations can continue in future and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses

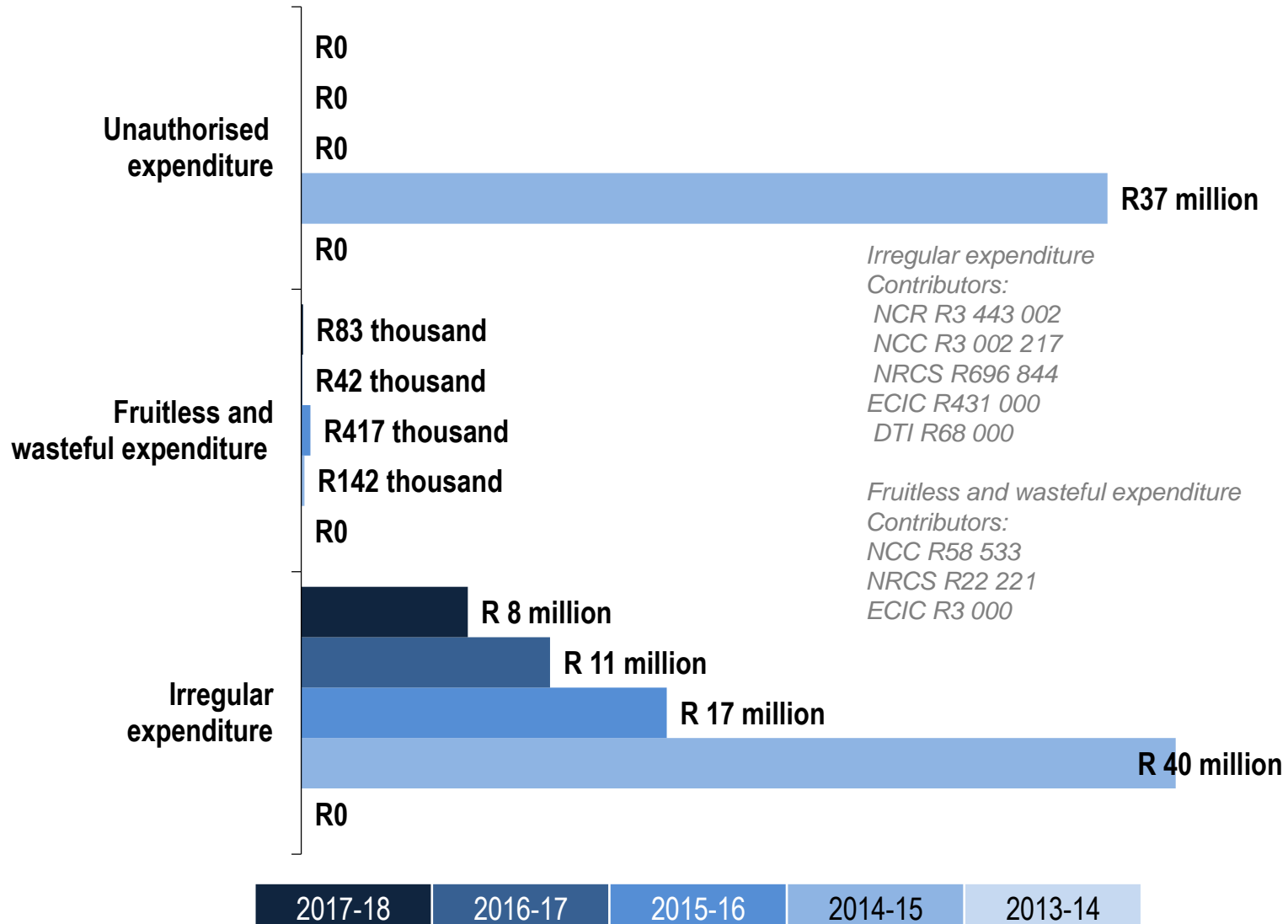
Unauthorised, irregular as well as fruitless and wasteful expenditure decrease over 5 years

Definition

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

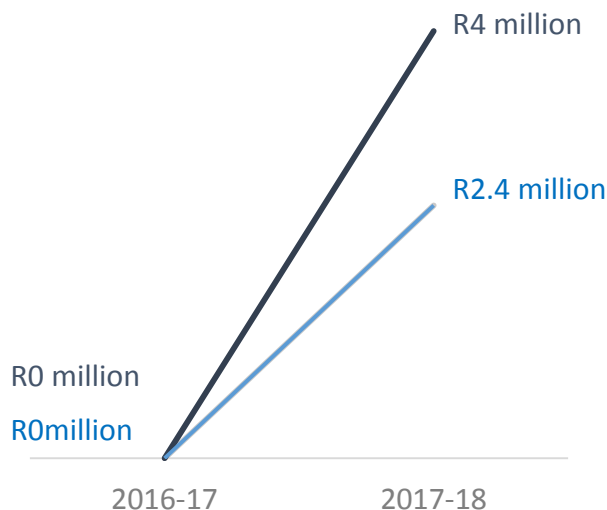
Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

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



Irregular expenditure and supply chain management

Irregular expenditure decreased from R11.4 million to R7.6 million.

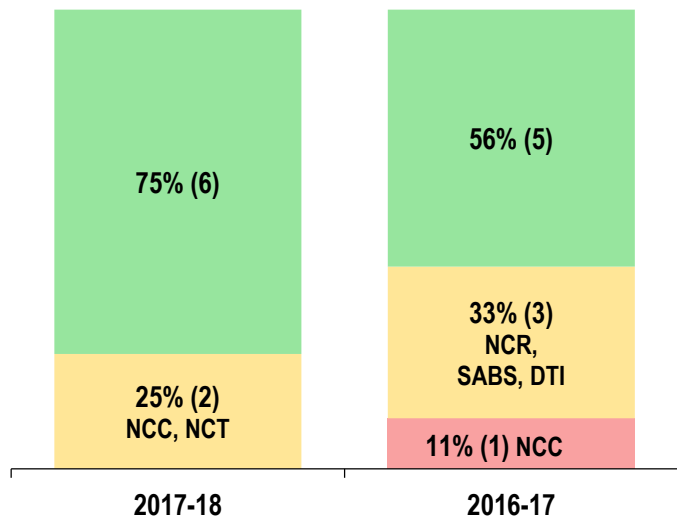


38% (R2,4 million) of the irregular expenditure was payments/ expenses in previous years only uncovered and disclosed for the first time in 2017-18

62% (R4 million) of the irregular expenditure includes payments made on contracts irregularly awarded in a previous year - if the non-compliance is not investigated and condoned, the payments on multi-year contracts continue to be viewed and disclosed as irregular expenditure

How much of the R 7.6 million then represents **non-compliance in 2017-18?**

Based on analyses it is estimated to be 16.7%



Improvement in SCM compliance
(2016-17: 56% with no findings)

R0

prohibited awards to other state officials

False declarations of interest made by

1 supplier

Uncompetitive and unfair procurement processes at

25% of entities

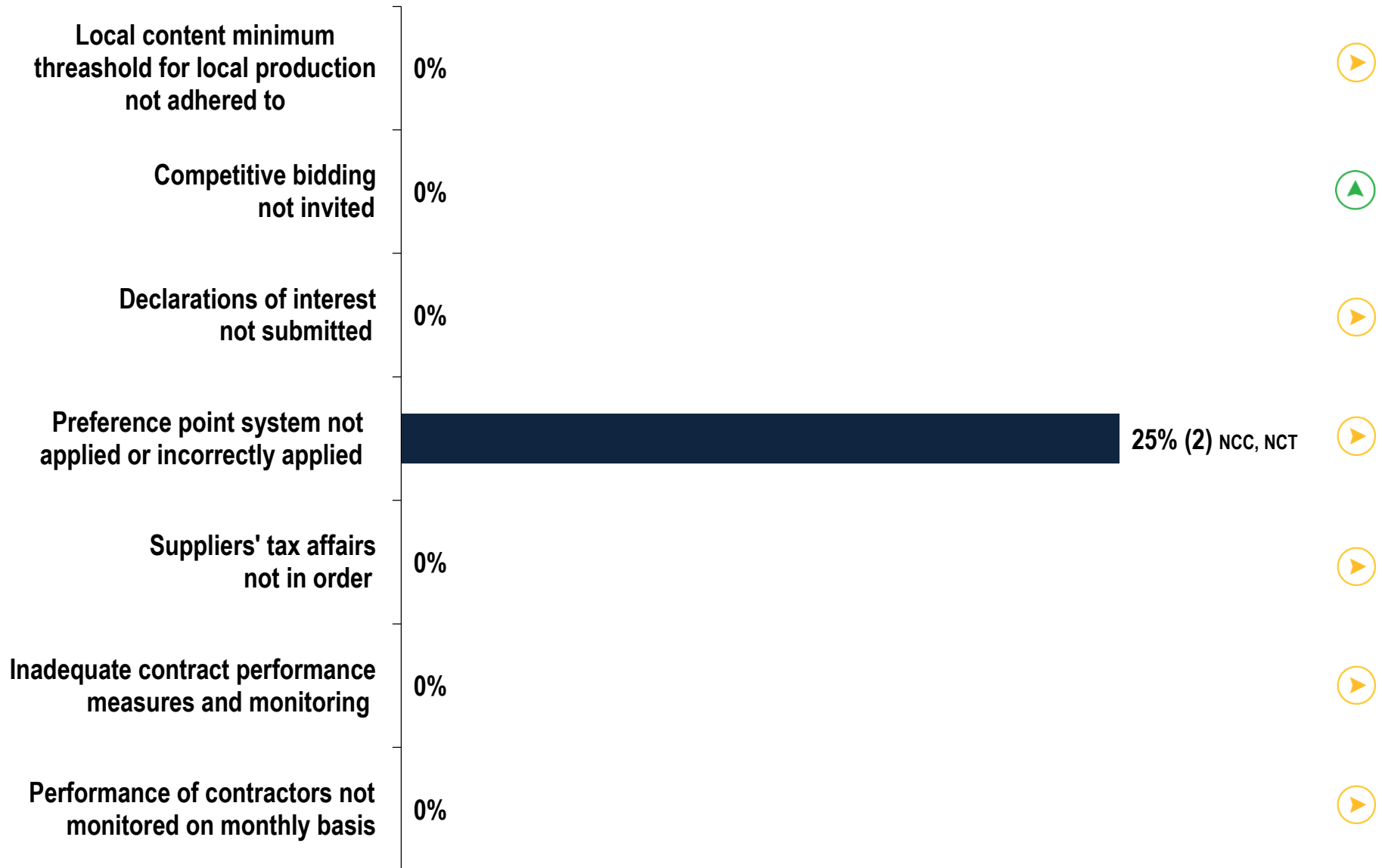
With no findings

With findings

With material findings



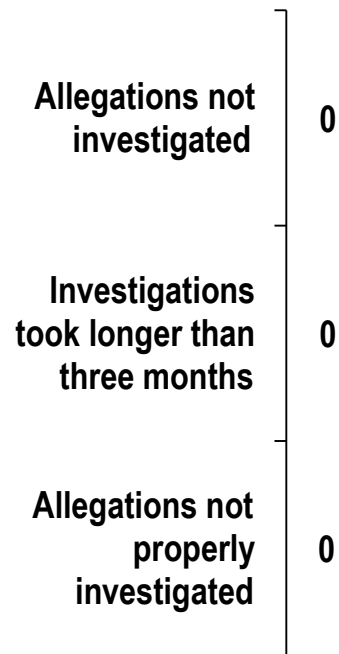
Most common findings on supply chain management



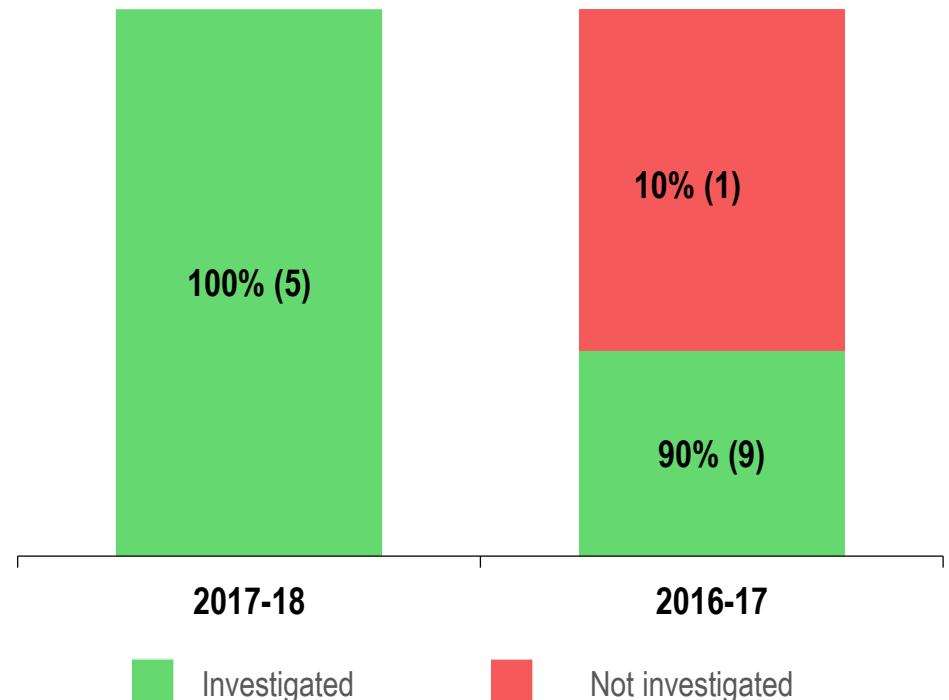
Fraud and consequence management

- No auditees had findings on non-compliance with legislation on consequence management

Allegations of financial and/or fraud and SCM misconduct (9 auditees)

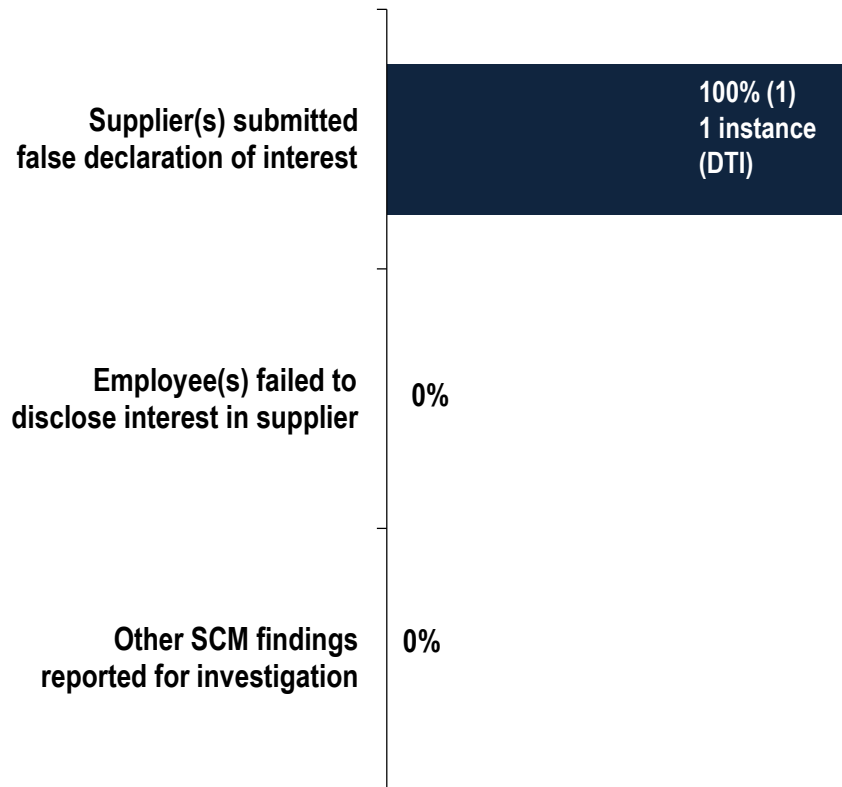


Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation

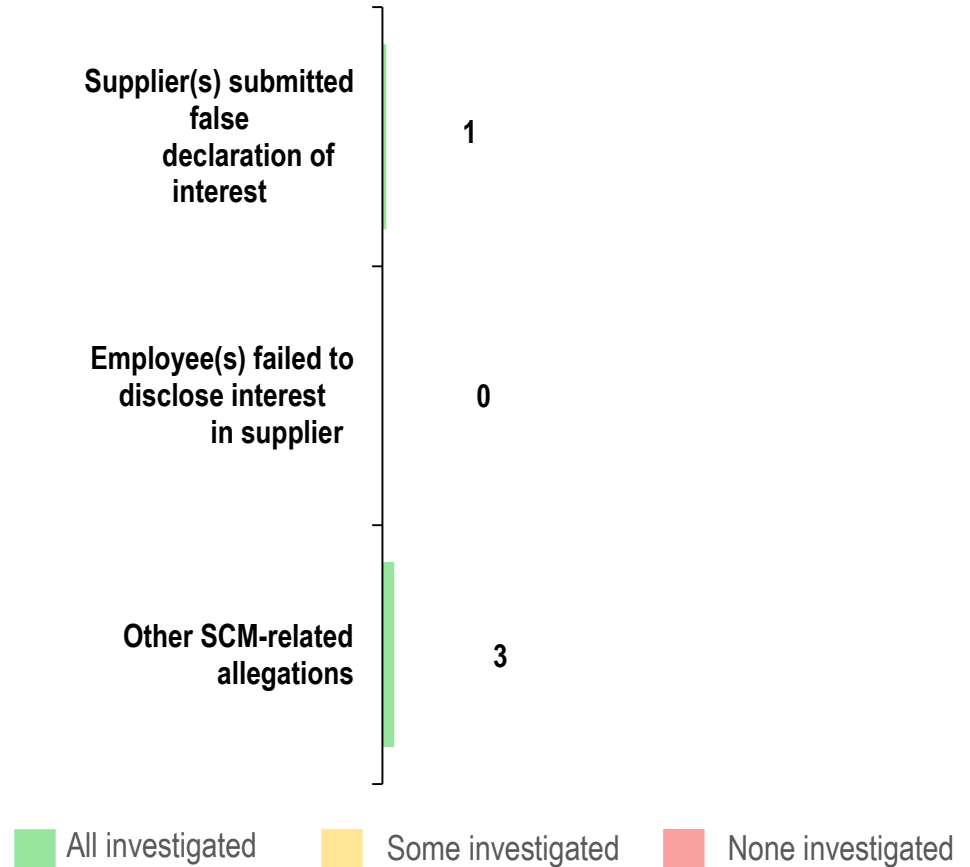


Supply chain management findings reported to management for investigation

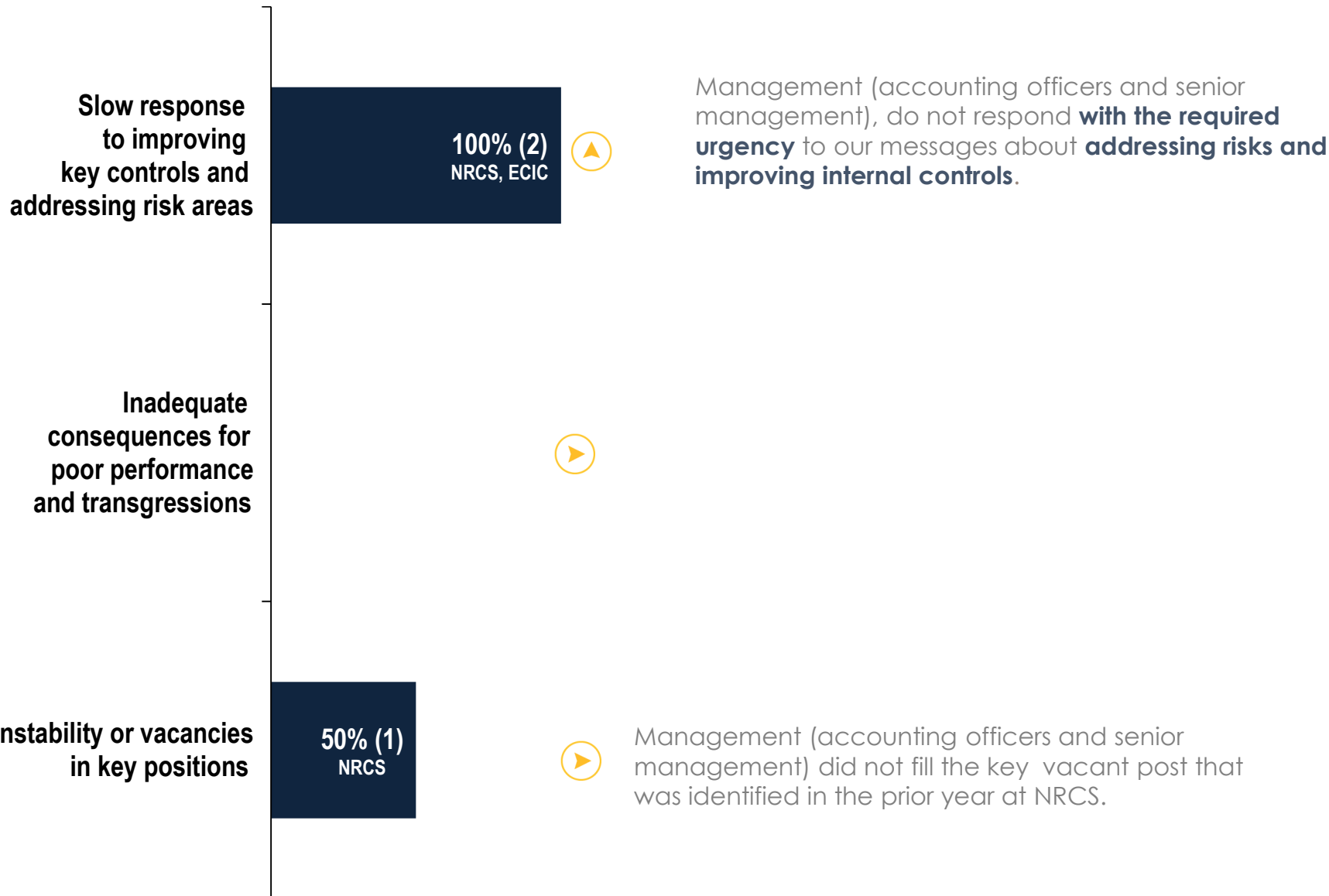
SCM findings reported for investigation during the 2017-18 audit process (all auditees)



Follow-up of the previous year's SCM findings reported for investigations



Root causes



Recommendations/ commitments

Completed

Request the dti to provide their SCM checklist to ensure that the checklist that is used is complete. Furthermore, the SCM checklist must be prepared before the procurement is approved. (NCC)

Three levels of review (Financial Manager, Head of Finance and Head of Corporate Services) will be implemented before the financial statements are submitted for audit. (NCC)

In progress

To improve the internal control environment (including the IT environment). (NRCS)

Resolve the revenue qualification. (NRCS)

Not implemented

None

Status of records review

- The status of records review will be done in the third quarter of 2018/19.





CORRUPTION

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MONOPOLY

DISCRETION

ACCOUNTABILITY



#AGSA

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