



BUDGETARY REVIEW AND
RECOMMENDATIONS REPORT | **PFMA**
2017-18

Briefing to Portfolio Committee on Justice and Correctional
Services on the Department of Correctional Services



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)*.

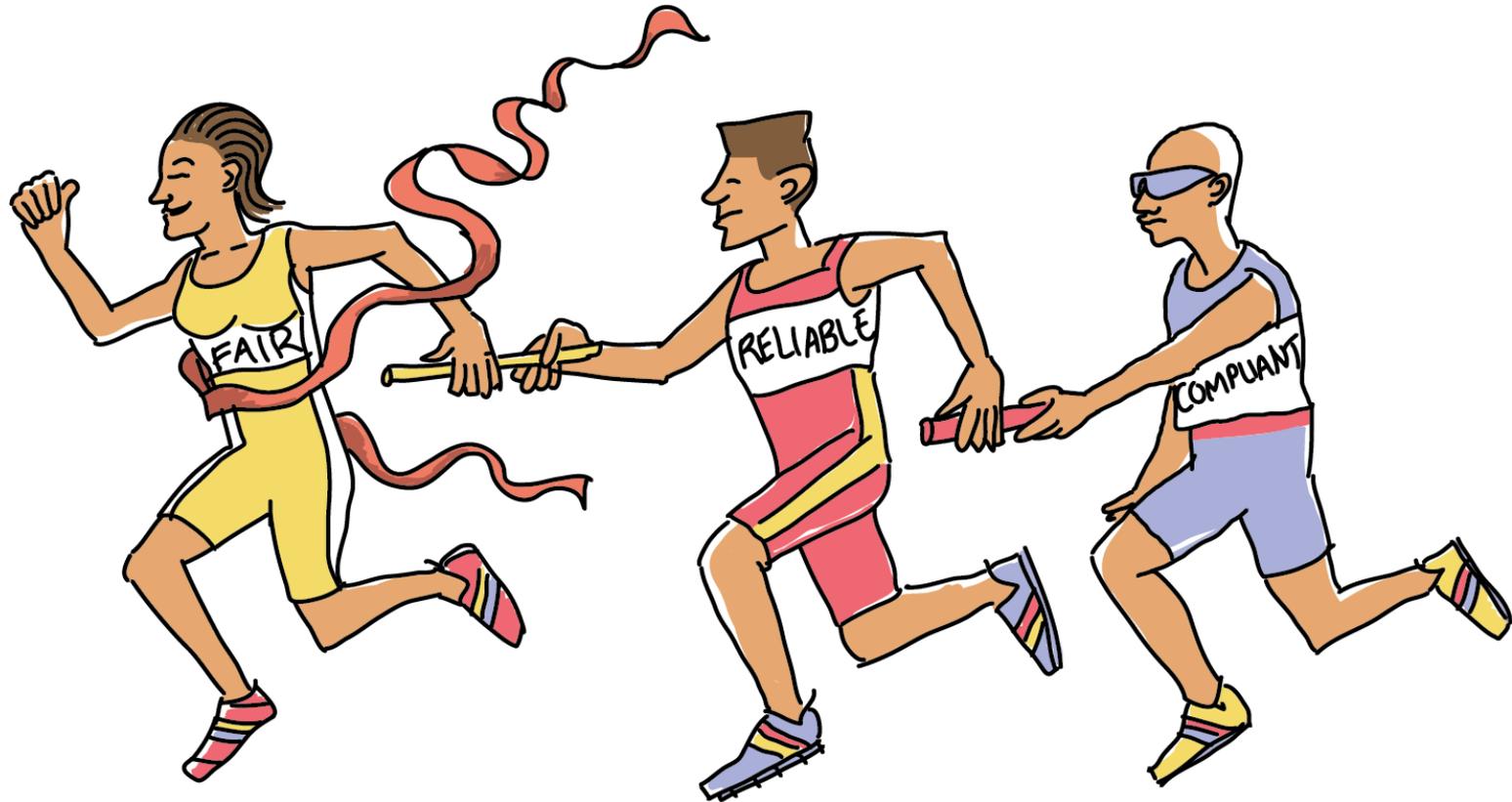


1

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
- 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 annual performance plans
- 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

This presentation gives the detailed audit outcomes of the Department of Correctional Services

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 from the previous year is depicted as follows:

-  Improved
-  Unchanged
-  Regressed
- Movement of 5% or less:
 -  slight improvement
 -  slight regression



2

The 2017-18 audit outcomes



Portfolio snapshot (2017-18)



Clean audit: 0%
(2016-17: )



Financial statements submitted had material adjustments
(2016-17: )



Performance reports submitted had material adjustments
(2016-17: )

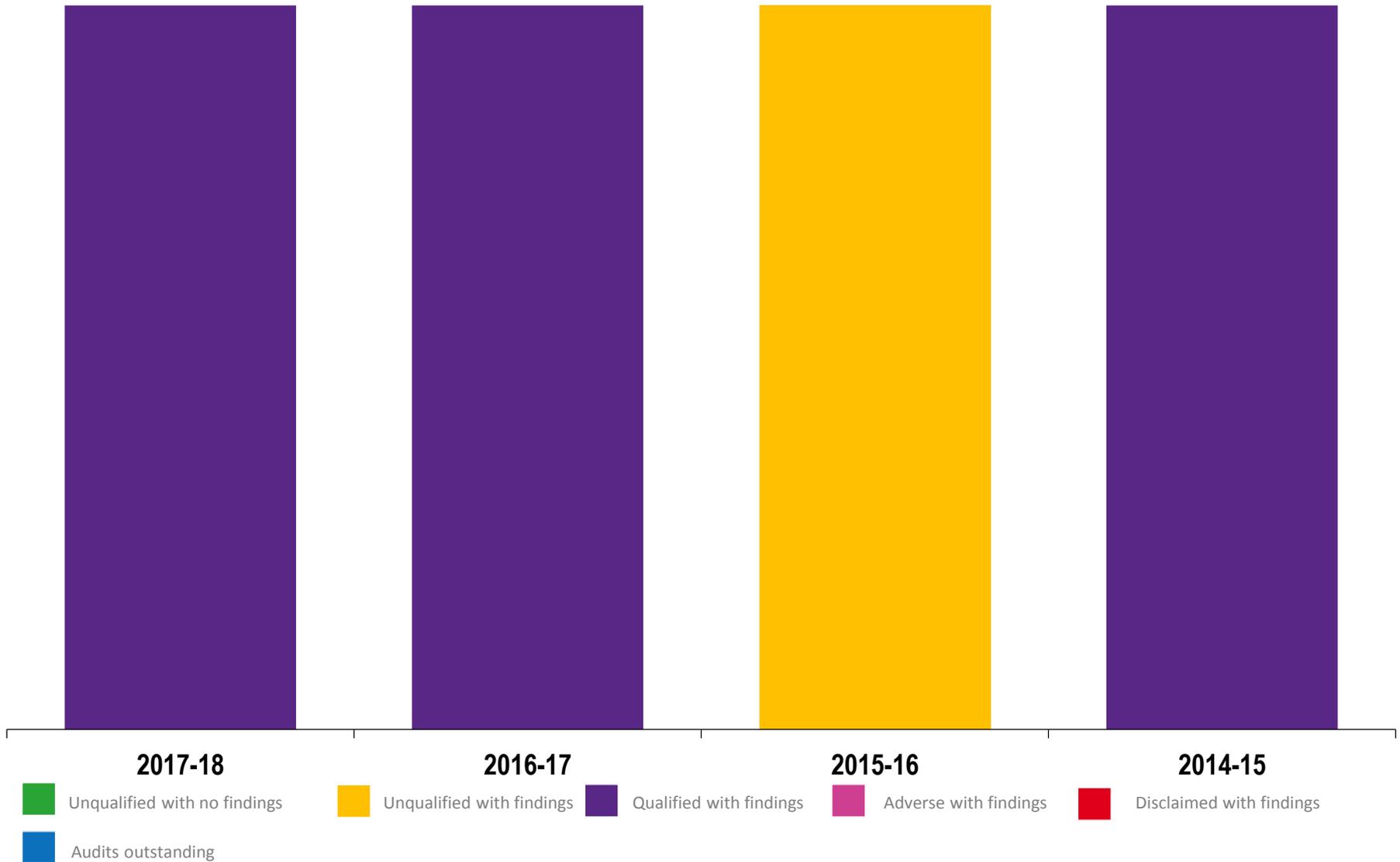


Findings on compliance with legislation
(2016-17 )



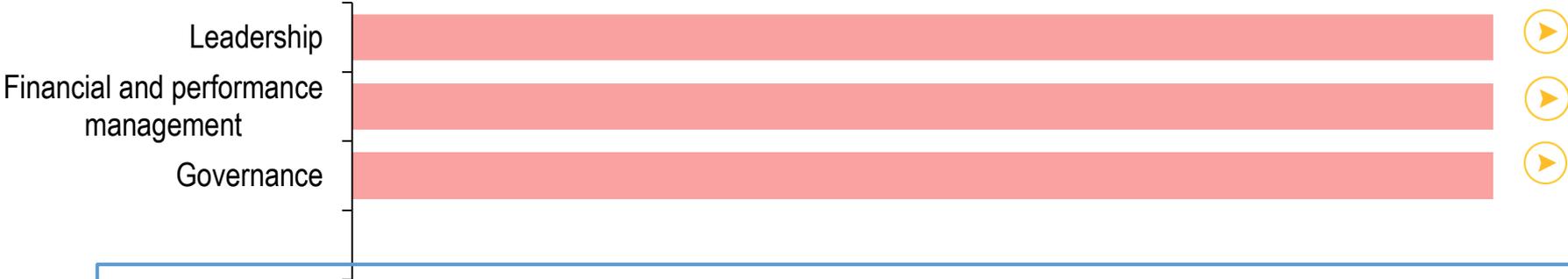
Irregular expenditure: R1,897 b
(2016-17: R836m)

Audit outcomes of portfolio over four years



Status of internal control

Drivers of internal control



Leadership

- Lack of adequate oversight responsibility regarding financial reporting and compliance
- Inadequate implementation of action plans to address prior year audit findings

Financial and performance management

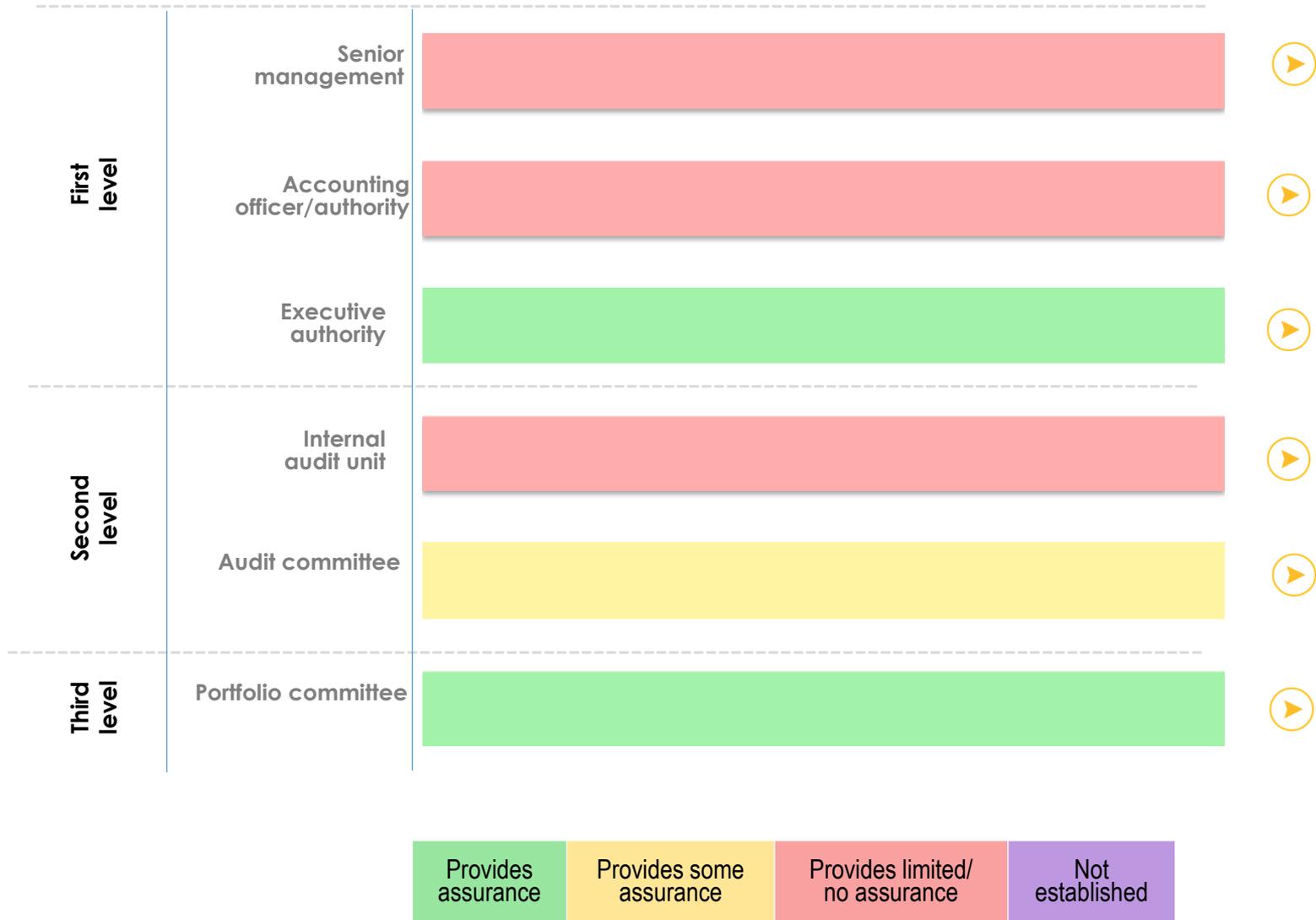
- Inadequate implementation of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Inadequate implementation of controls over daily and monthly processing and reconciling of transactions
- Lack of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Governance

- Insufficient capacity in internal audit function and lack of skills to review financial statements as well as information systems audits

Assurance provided

Assurance





Evaluation per plan-do-check-act cycle

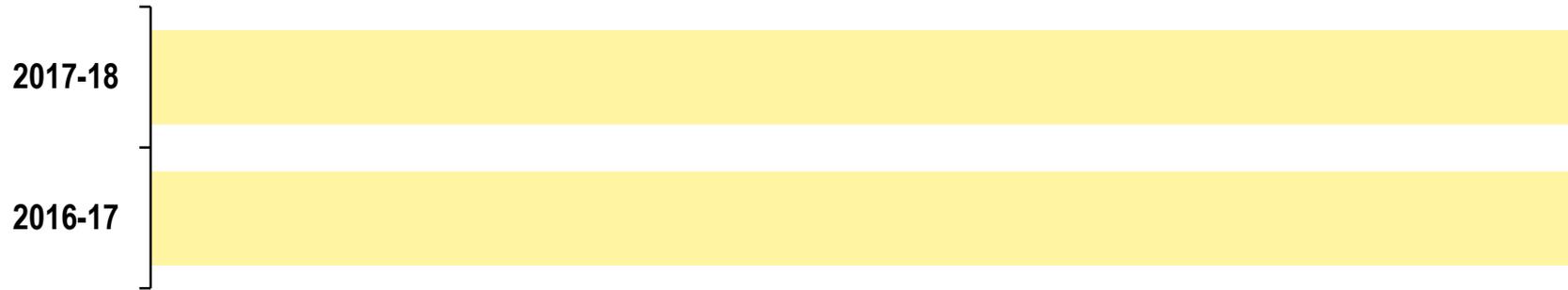


3

Financial health and financial management



Financial health



Key concerns identified

- The financial health of the department remains a concern.
- There was a reduction in the creditor-payment period from the previous year, which has resulted in a decrease in total accruals. However, accruals over 30 days are still material, which will have an impact on the 2018-19 budget.
- The net current liability position is concerning and is a significant indicator that the department is having challenges managing cash and will not be able to settle short-term debts when they become due. There was a slight increase in accruals over 30 days as a percentage of the total accruals balance and an increase in the overdraft.



Two or fewer 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 increased over four years

Definition

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

Fruitless and wasteful expenditure

R41 million

R1 million

R37 million

R36 million

Fruitless and wasteful expenditure was as a result of interest, penalties, and cancellation fees

Irregular expenditure

R1 897 million

R836 million

R490 million

R282 million

100% of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation

2017-18

2016-17

2015-16

2014-15

2013-14



Risk of unauthorised expenditure

The accounting officers responsibilities in terms of the PFMA section 39 states that the accounting officer is responsible for the **expenditure of that department is in accordance with the vote of the department and the main divisions within the vote**; and must ensure that effective and appropriate steps are taken to prevent unauthorised expenditure and take effective and appropriate steps to prevent any overspending of the vote of the department or a main division within the vote,

The accounting officer must report to the executive authority and the relevant treasury any impending shortfalls in budgeted revenue; and overspending of the department's vote or a main division within the vote.

In terms of the PFMA unauthorised expenditure” means—

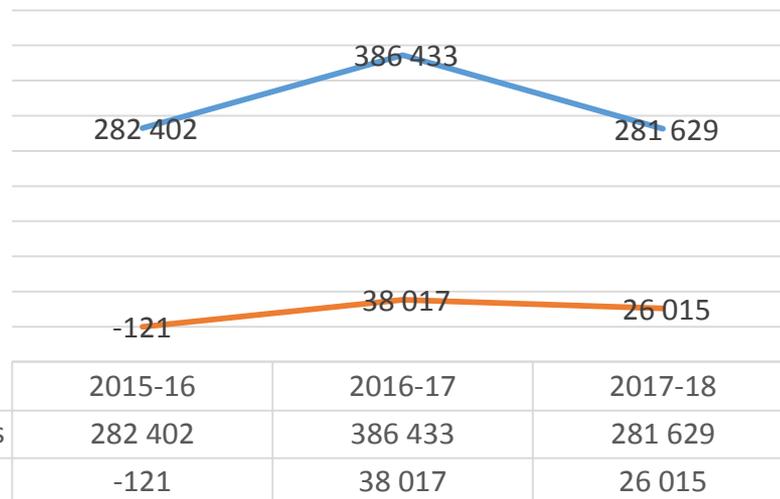
- (a) overspending of a vote or a main division within a vote;
- (b) expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division;

Treasury regulations 8.2.3 states that **payments must be made within 30 days or an agreed period** after receipt of an invoice.

Accruals are defined in the Modified cash based standards as liabilities to pay for goods or services that have been received or supplied but have not been paid and have not been invoiced or formally agreed with the supplier or recipient.

The departments payables which exceed the payment term of 30 days' amount to R281 629 000. This amount, in turn, exceeds the voted funds to be surrendered of R26 015 000 as per the statement of financial performance.

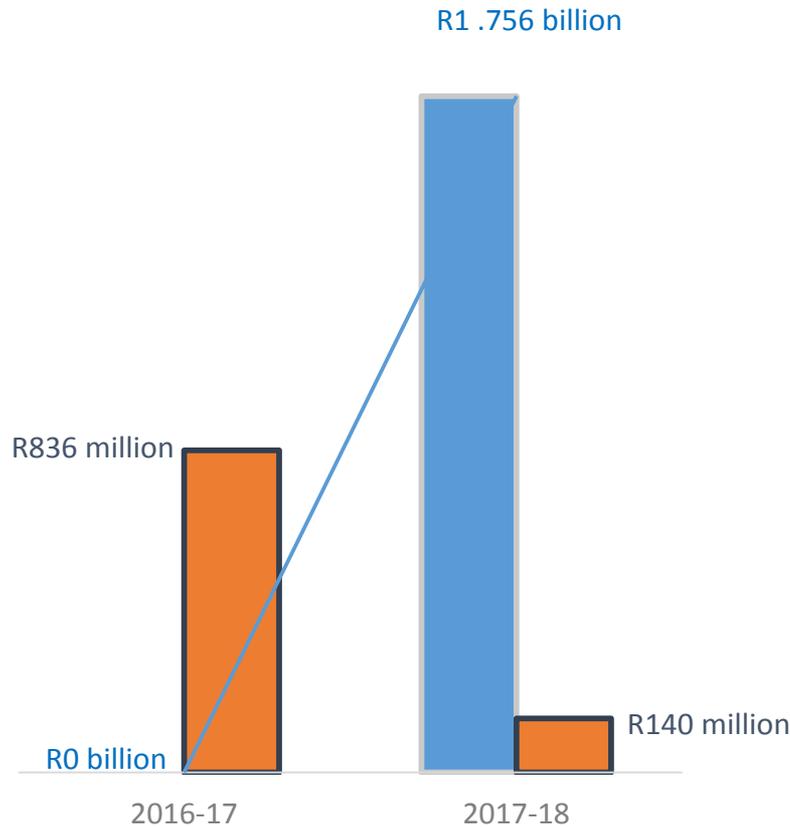
The amount of R255 614 000 would therefore have constituted unauthorised expenditure had the amounts due been paid in a timely manner.



Irregular expenditure and supply chain management



Irregular expenditure increased from R836 million to **R1.897 billion (more than 100% increase)**



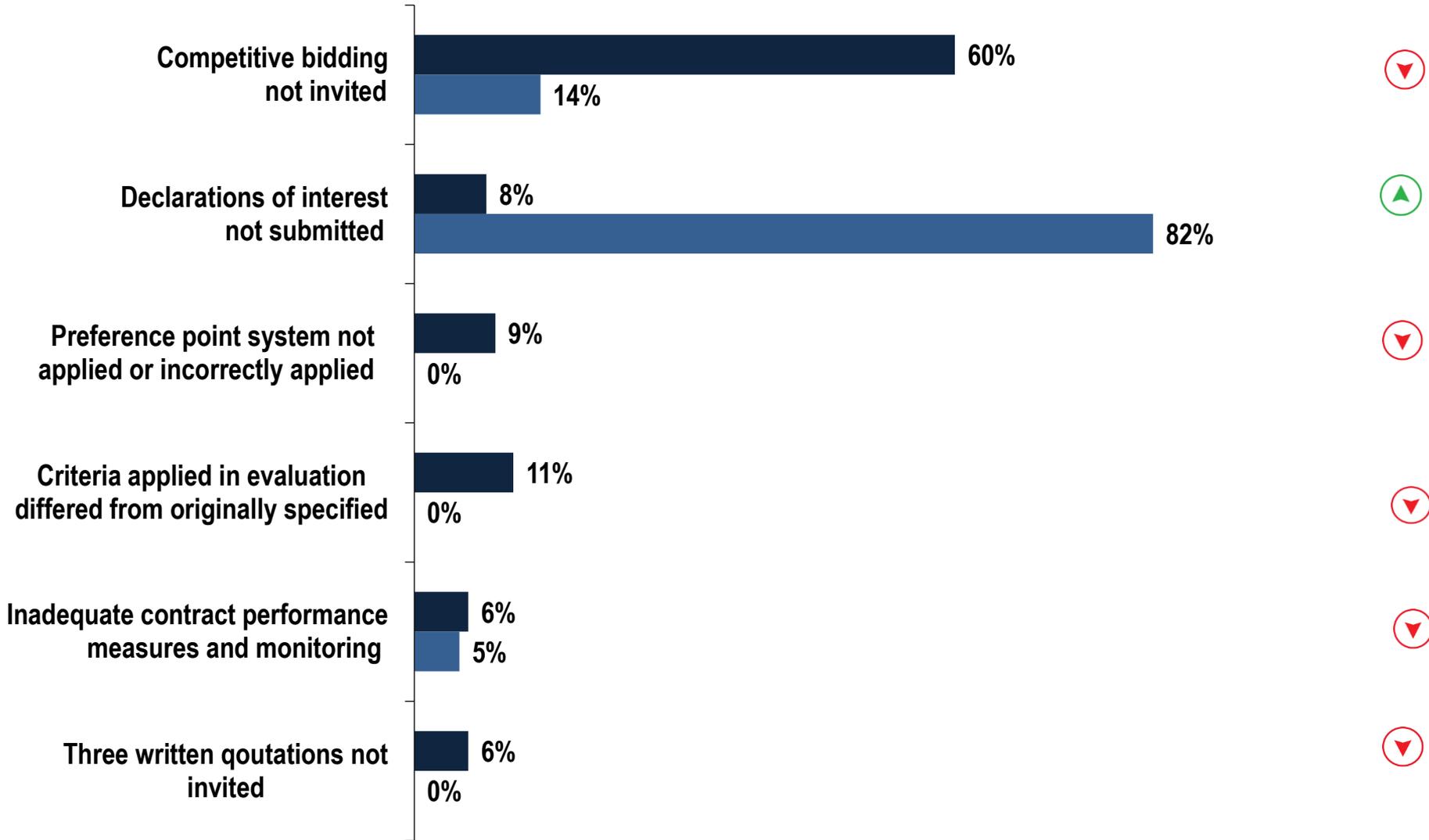
R1.756 billion of the irregular expenditure was payments/ expenses in previous years disclosed for the first time in 2017-18, the amount was disclosed as irregular expenditure under investigation in 2016-17. If the non-compliance is not investigated and condoned, the payments on multi-year contracts continue to be viewed and disclosed as irregular expenditure

This analysis shows that of the R 1.897 billion irregular expenditure disclosed, 7% (R140 million) represents **non-compliance that occurred in 2017-18 financial year.**

R836 million represents non-compliance that occurred in 2016-17.



Most common findings on supply chain management

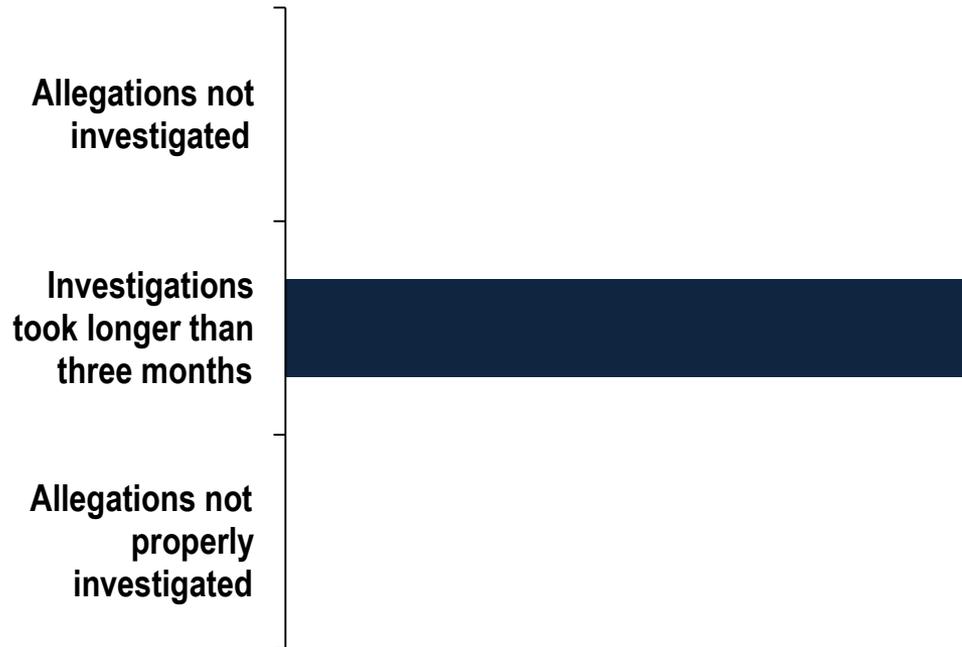


2017-18 2016-17

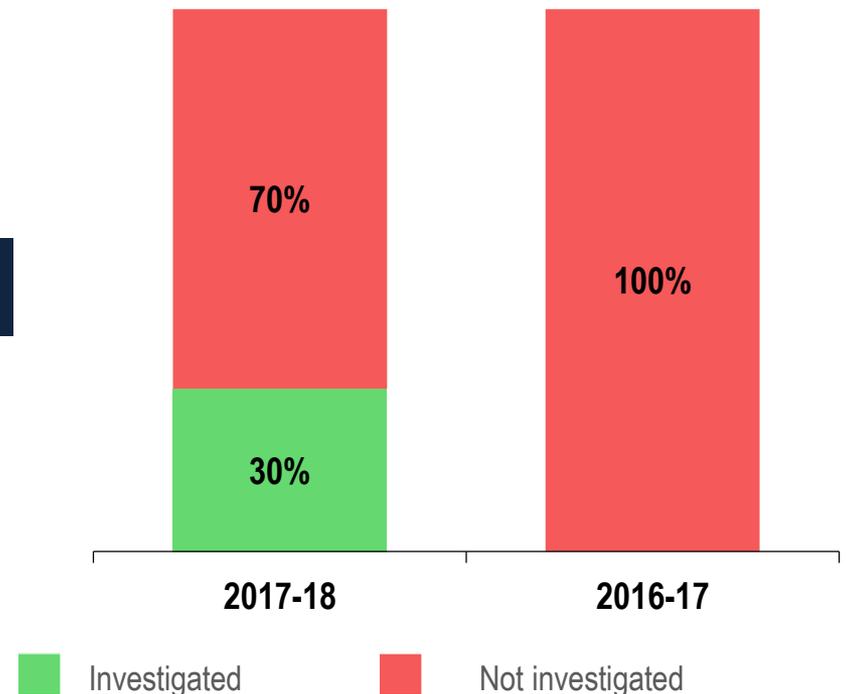
Potential fraud and consequence management

- The auditee had findings on non-compliance with legislation on consequence management

Allegations of financial and/or potential fraud and SCM misconduct

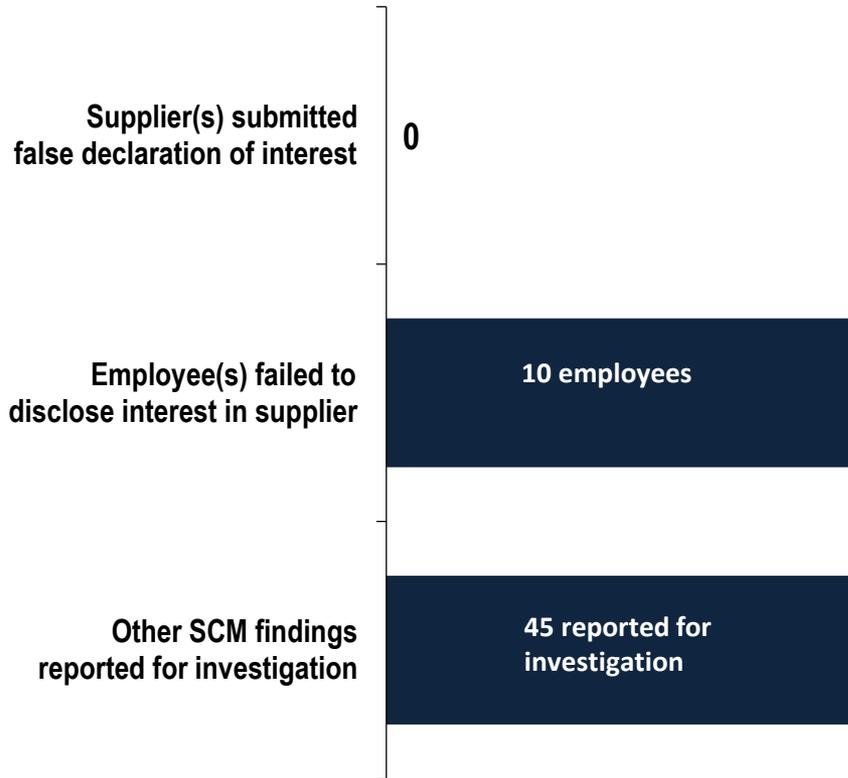


Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation

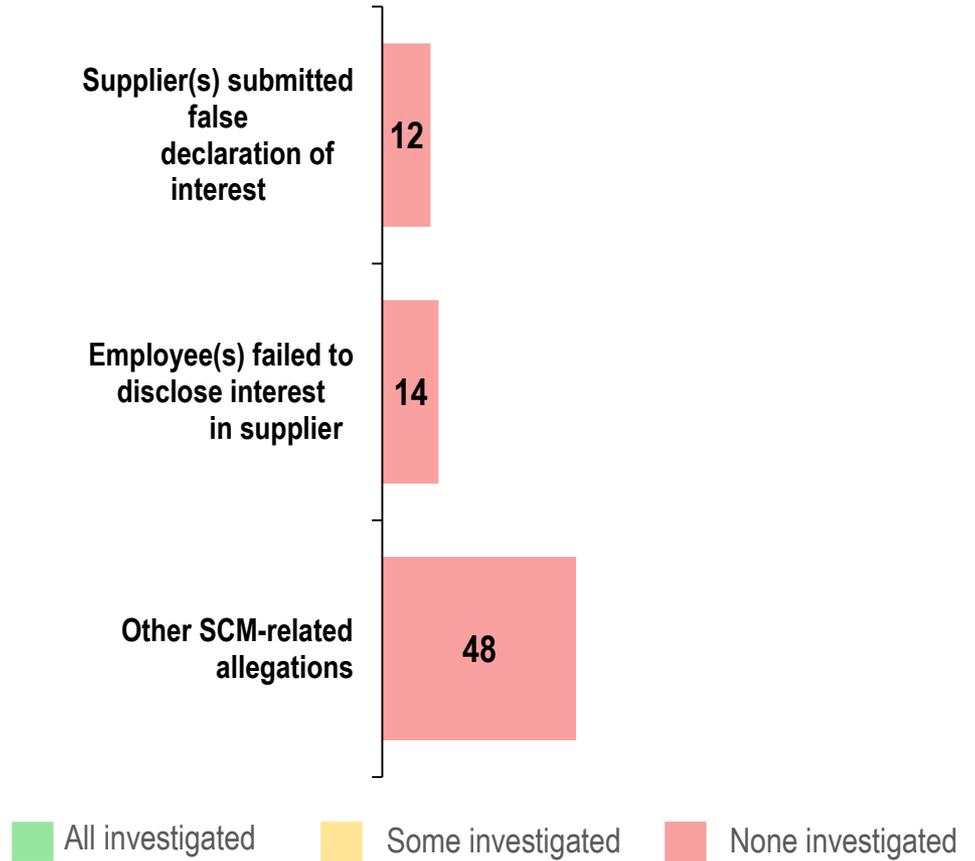


Supply chain management findings reported to management for investigation

SCM findings reported for investigation during the 2017-18 audit process



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



Root causes

Slow response to improving key controls and addressing risk areas



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

Inadequate consequences for poor performance and transgressions



Management (accounting officers and senior management), **does not adequately follow up** on long outstanding investigations timeously for transgressors of laws and regulations.



Status of key commitments and proposed recommendations for PC

Status of key commitments

Completed

Monitor the financial health of the Department

Monitor the filling of vacancies of the National Commissioner and regional commissioner

In progress

Monitor the implementation of the integrated justice system at DCS (IIMS)

Not implemented

Monitor the implementation of the audit action plan to address audit findings

Monitor management action to instil a culture of consequence management for transgressions of laws, rules and regulations

Monitor progress made on upgrading of facilities

Recommendations

Monitor the financial health of the Department.

Monitor the implementation of the integrated justice system at DCS (IIMS).

Monitor progress made on upgrading of facilities.



AGSA Status of records review:

Engaging accounting officers in **conversations** that are **insightful, relevant and have an impact**

Status of records review



Pro-active follow up procedures

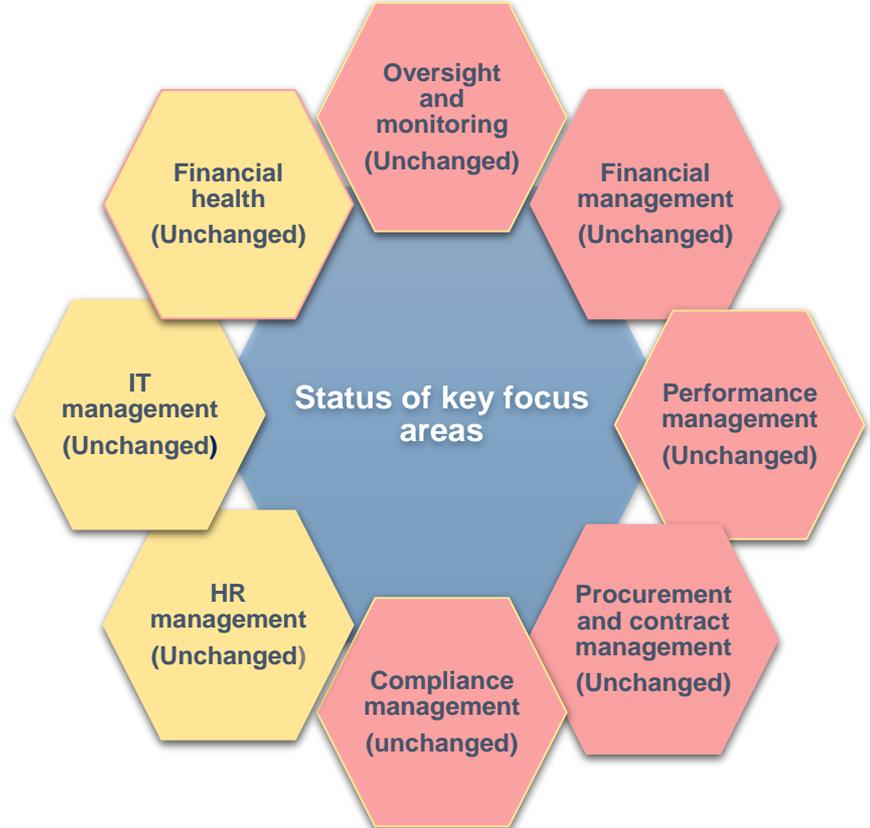


Financial and non – financial information (internal and external reports/documents & discussions with senior managers)



Feedback linked to Audit Outcomes
Key matters for attention:

Oversight and monitoring unchanged due to lack of oversight over Implementing agents, as well as performance reporting.
Financial management unchanged due to quality of annual financial statements and annual performance report submitted.
Irregular expenditure is still being identified in the procurement of goods and services
Compliance with laws and regulations is not being adequately monitored for paying suppliers on time as well as consequence management.
Key vacancies still existed.
IT governance framework was not fully implemented



■ Good
 ■ Of concern
 ■ Intervention required





CORRUPTION

C

=

M

+

D

-

A

MONOPOLY

DISCRETION

ACCOUNTABILITY



#AGSA

#AntiCorruption



Stay in touch with the AGSA



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa