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

Briefing to Portfolio Committee on Social Development



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)*.

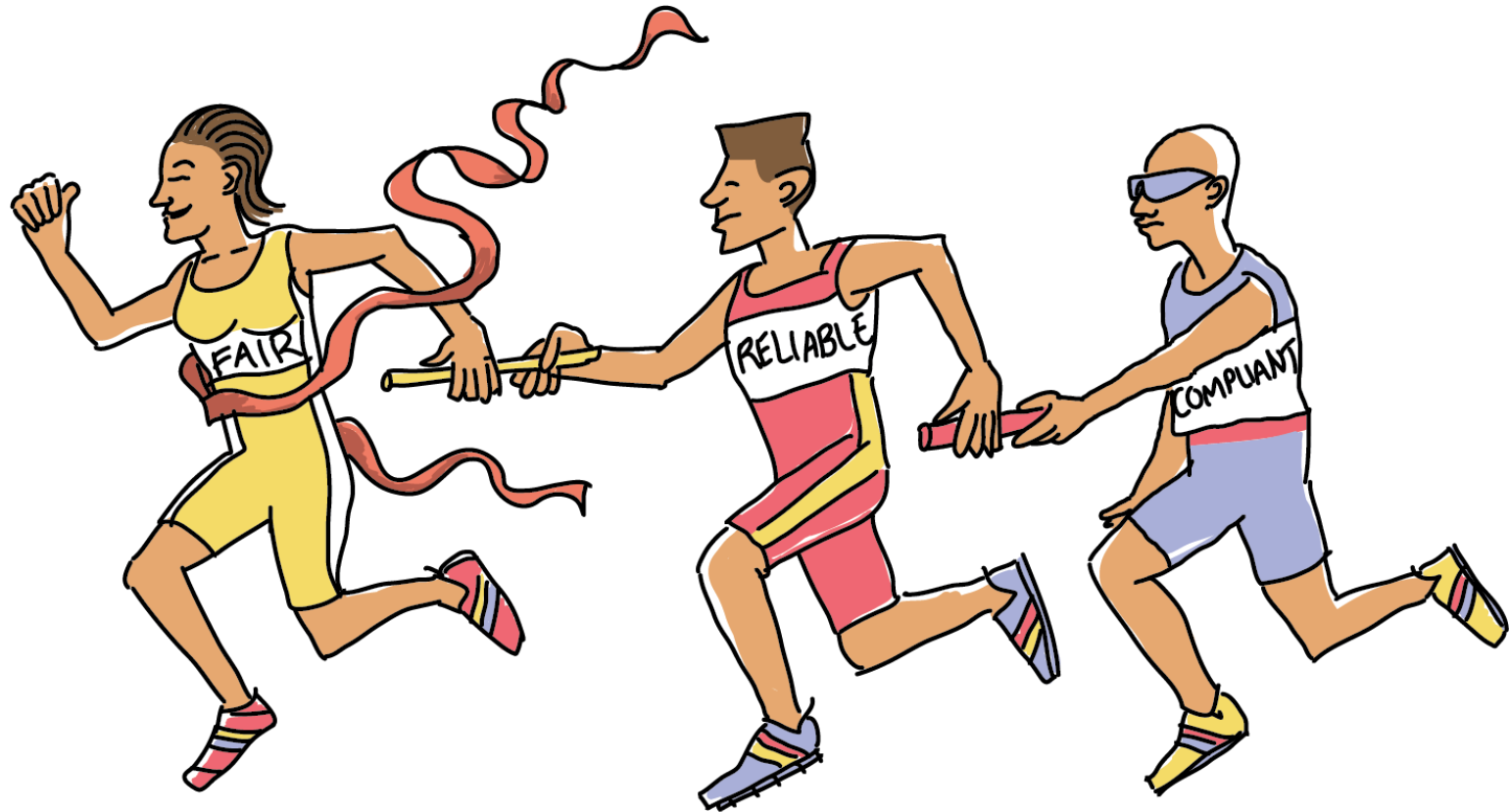


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Our focus



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 3 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 the previous year is depicted as follows:

 Improved

 Unchanged

 Regressed

Movement of 5% or less:

 slight improvement

 slight regression

Auditees included in this presentation

DSD – Department of Social Development

Sassa – South African Social Security Agency

NDA – National Development Agency

The following audits are part of the portfolio but were presented in a separate slide:

DRF – The Disaster Relief Fund

SRF – The Social Relief Fund

RRF – The Refugee Relief Fund

SPF – The State President Fund



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The 2017-18 audit outcomes

ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Evaluation per plan-do-check-act cycle



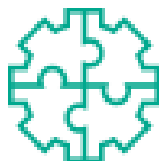
Portfolio snapshot (2017-18)



Clean audits: 0%
(2016-17: 33%) (DSD)



**Quality financial
statements: 33% (DSD)**
(2016-17: 67%) (DSD, NDA)



**Quality performance
reports: 0%**
(2016-17: 33%) (DSD)

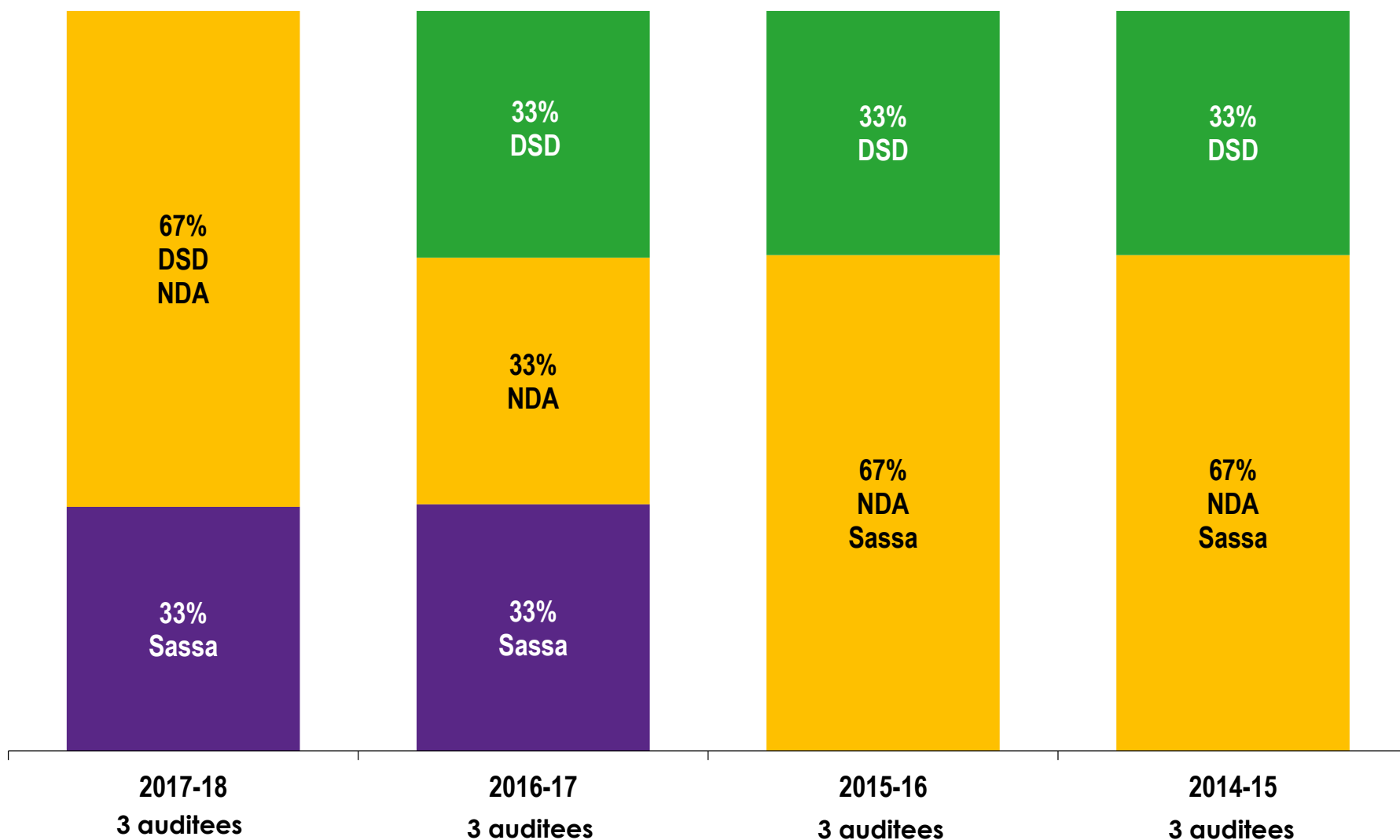


**No findings on compliance
with legislation: 0%**
(2016-17: 33%) (DSD)

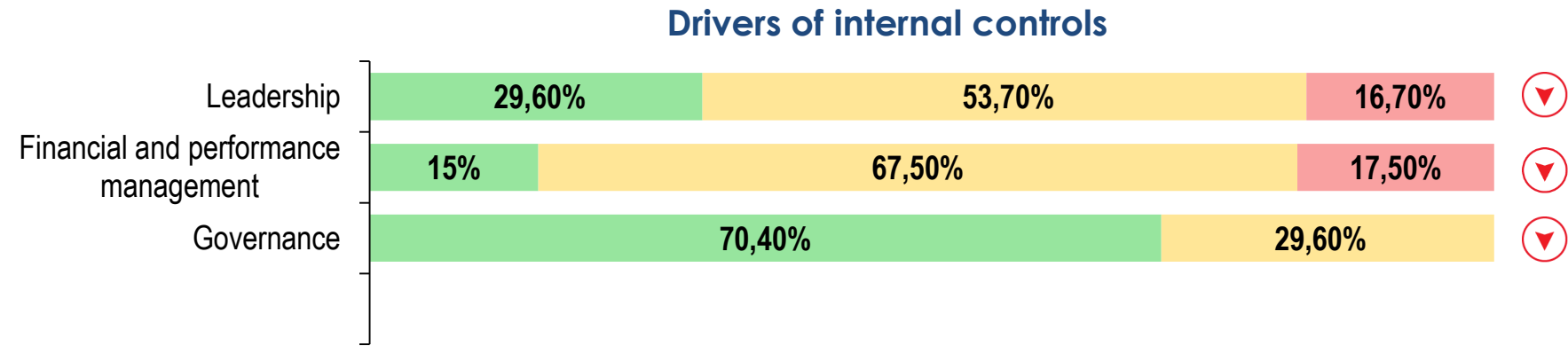


**Irregular expenditure:
R517.2m**
(2016-17: R375,9m)

Audit outcomes of portfolio over four years



Status of internal control



Narrative

- There was a regression in the status of internal controls in the portfolio.
- There was a slight improvement in leadership controls implemented at the DSD; however, regression was noted at both Sassa and NDA.
- At Sassa the oversight responsibility, effective leadership and policies and procedures are of concern and at NDA the oversight responsibility, HR management, action plans and policies and procedure are of concern.
- Regression on the internal controls relating to financial and performance management in that record keeping, performance reporting and compliance were the main contributors at Sassa and NDA.
- Internal controls related to governance improved at DSD, remained unchanged at NDA and controls regressed at Sassa for risk management and internal audit due to vacancies and non performance of risk assessments.



Assurance provided

Assurance			
First level	Senior management	3 (DSD, NDA, Sassa)	▶
	Accounting officer/authority	3 (DSD, NDA, Sassa)	▼
	Executive authority		▶
Second level	Internal audit unit	1 (NDA) 2 (DSD, Sassa)	▼
	Audit committee	3 (DSD, NDA, Sassa)	▲
Third level	Portfolio committee		▶

Provides assurance

Provides some assurance

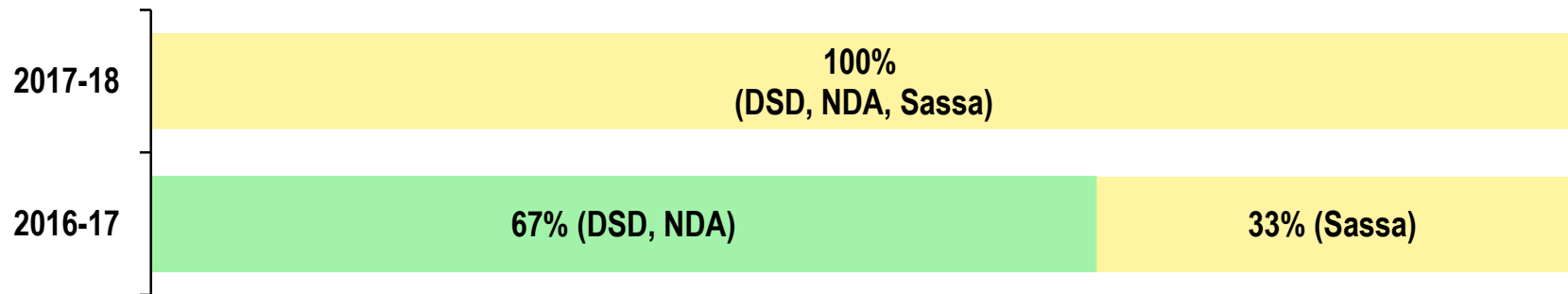
Provides limited/ no assurance

Not established

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Financial health and financial management

Financial health



Key concerns identified

- Management should enhance timely remedial action to improve the position of the following areas:
 - At NDA, a deficit for the year was realised, Net cash flows for the year from operating activities were negative and over 40% of trade debtors were impaired.
 - At Sassa, the collection of debtors worsened which might cause problems in future as the debtors balance is growing; A net current liability position arose due to the retained surplus of R232 million that had to be paid back to the National Treasury during the year, which had an impact on the cash balance.
 - At DSD, had the department prepared its financial statements on the accrual basis of accounting, it would have realised a net liability position.
- Excluded from this graphic above, are the Social Development relief funds, which all have material uncertainty on their future operations due to a proposed change in their enabling legislation.

- 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 movement over 4 years

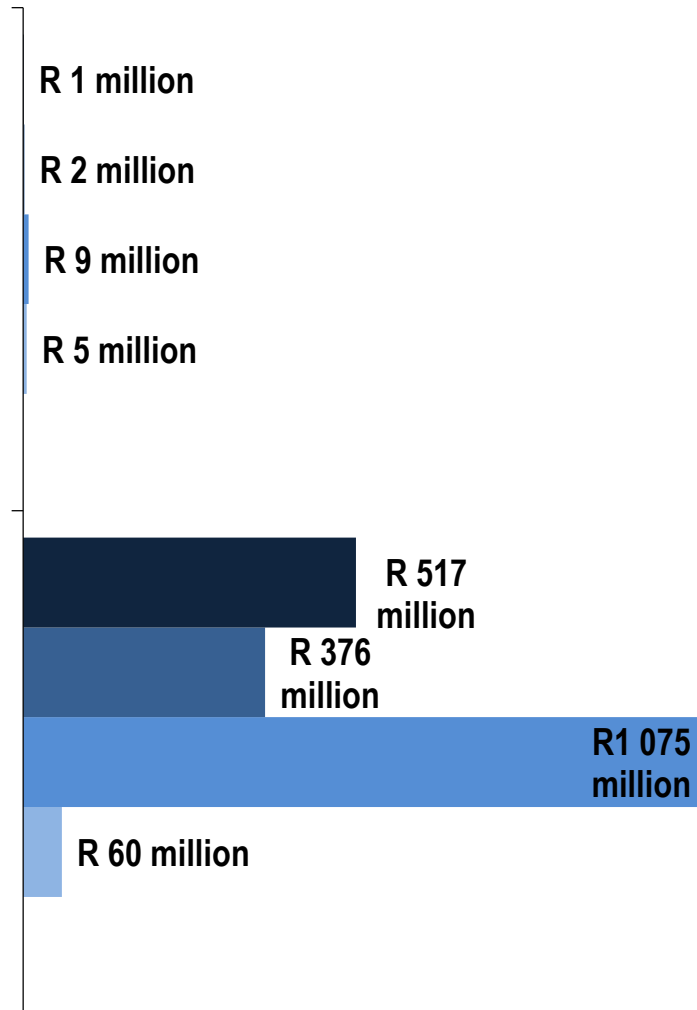
Definition

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

Fruitless and wasteful expenditure

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

Irregular expenditure



Fruitless and wasteful expenditure

Nature

Fruitless and wasteful expenditure was a result of hotel no shows (DSD) and Interest, penalties and litigation/claims (Sassa)

Contributors	DSD	R537 000
	Sassa	R419 000

Irregular expenditure

Nature

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

Contributors	DSD	R86 million
	NDA	R16 million
	Sassa	R415 million

No instances of irregular expenditure were identified where the entity did not receive the goods and services paid for.

2017-18

2016-17

2015-16

2014-15



Irregular expenditure and supply chain management

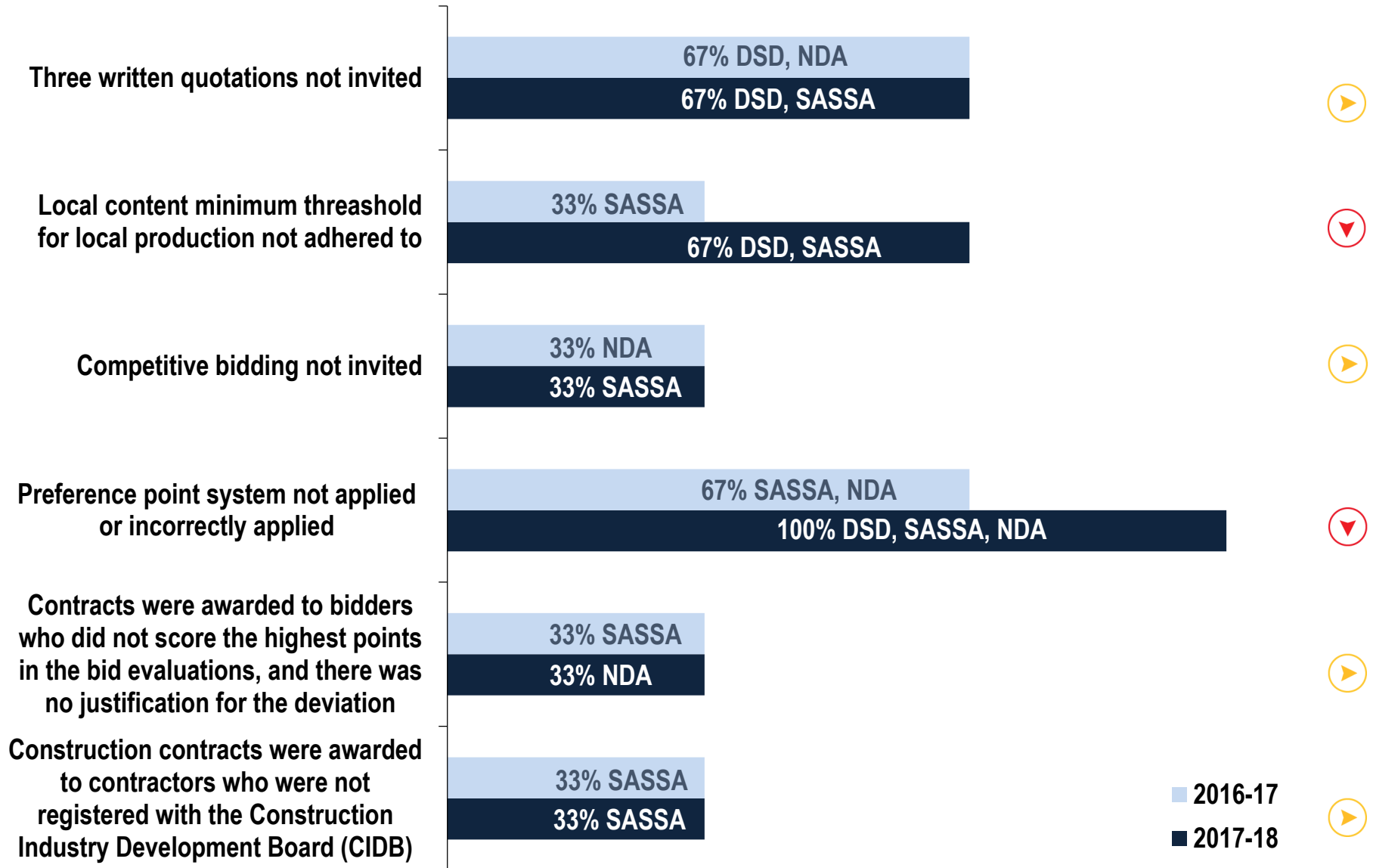
▼ Irregular expenditure increased from R376 million to **R517 million**

37% (R192 million) of the irregular expenditure was payments/expenses in previous years only uncovered and disclosed for the first time in 2017-18

40% (R207 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 continues to be viewed and disclosed as irregular expenditure.

Based on analyses it is estimated that **23%** (R118 million) represents **non-compliance in 2017-18.**

Most common findings on supply chain management

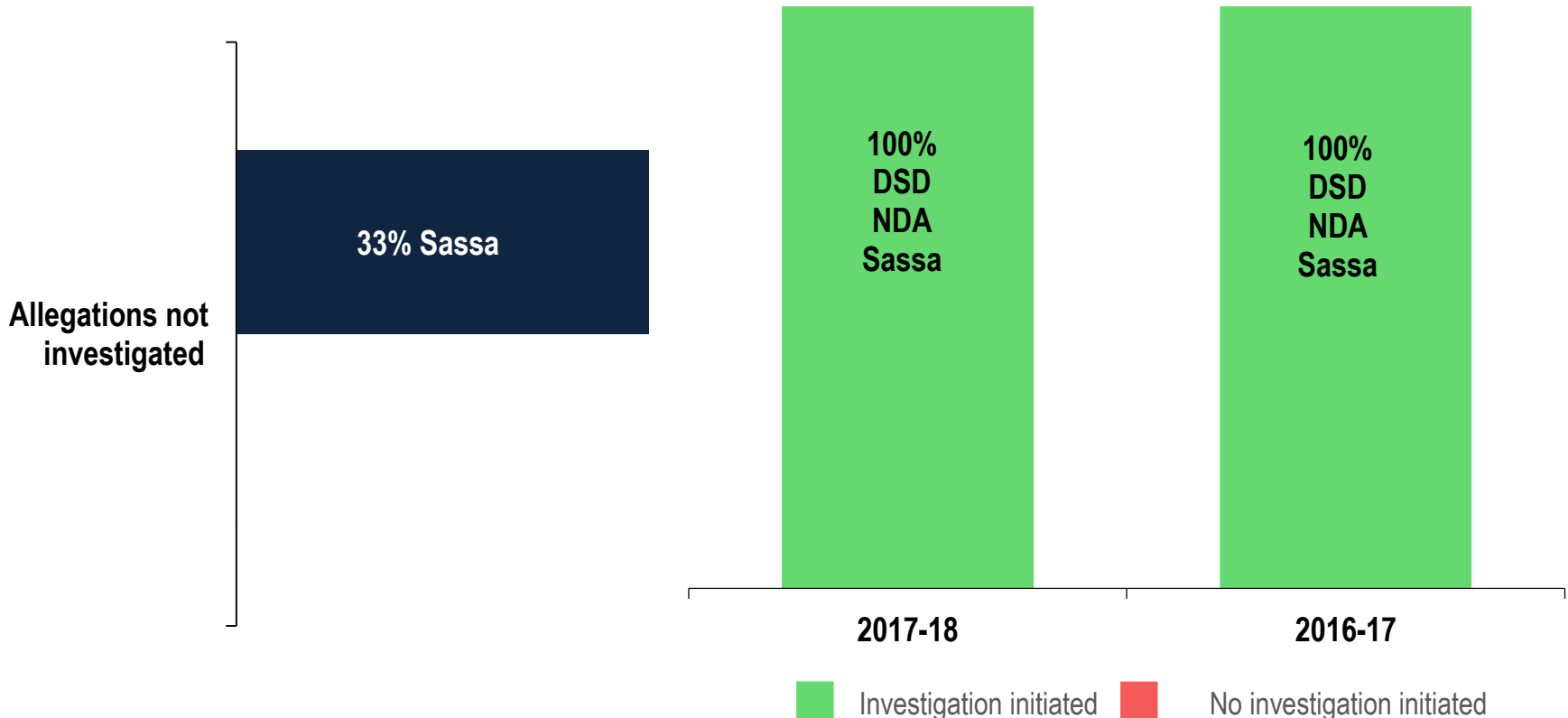


Potential for fraud and consequence management

- Both Sassa and the NDA had findings on possible consequence management

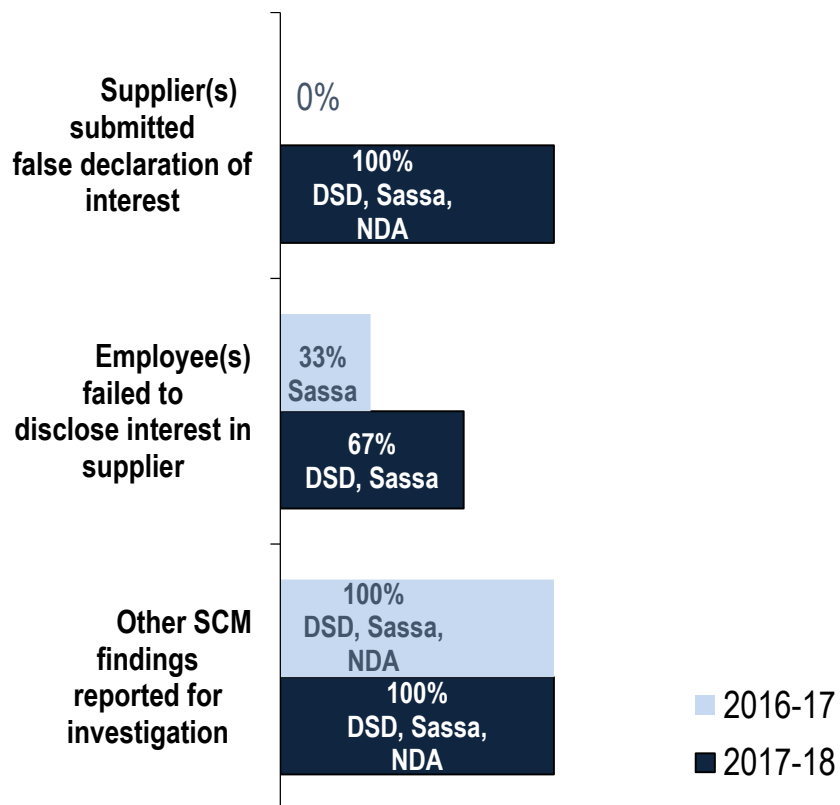
Allegations of financial and/or potential fraud and SCM misconduct during 2017-18 (3 auditees)

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

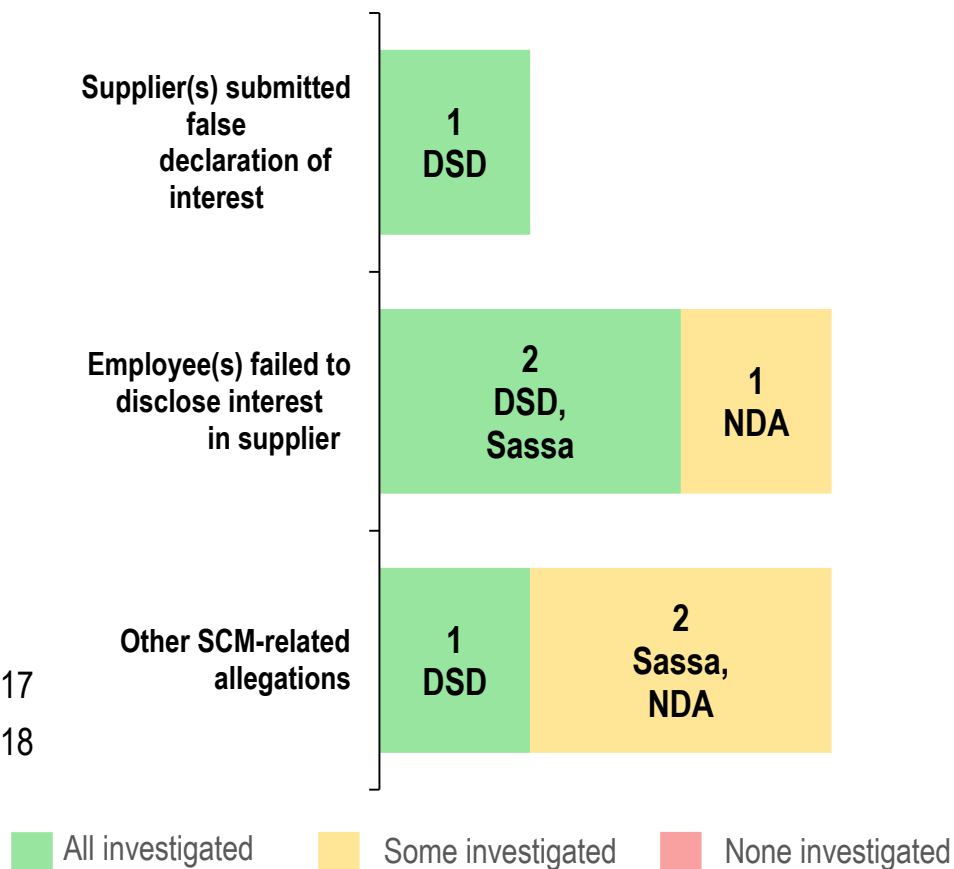


Supply chain management findings reported to management for investigation

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



Dormant/small funds audited by the Auditor-General of South Africa and not included in the above briefing.

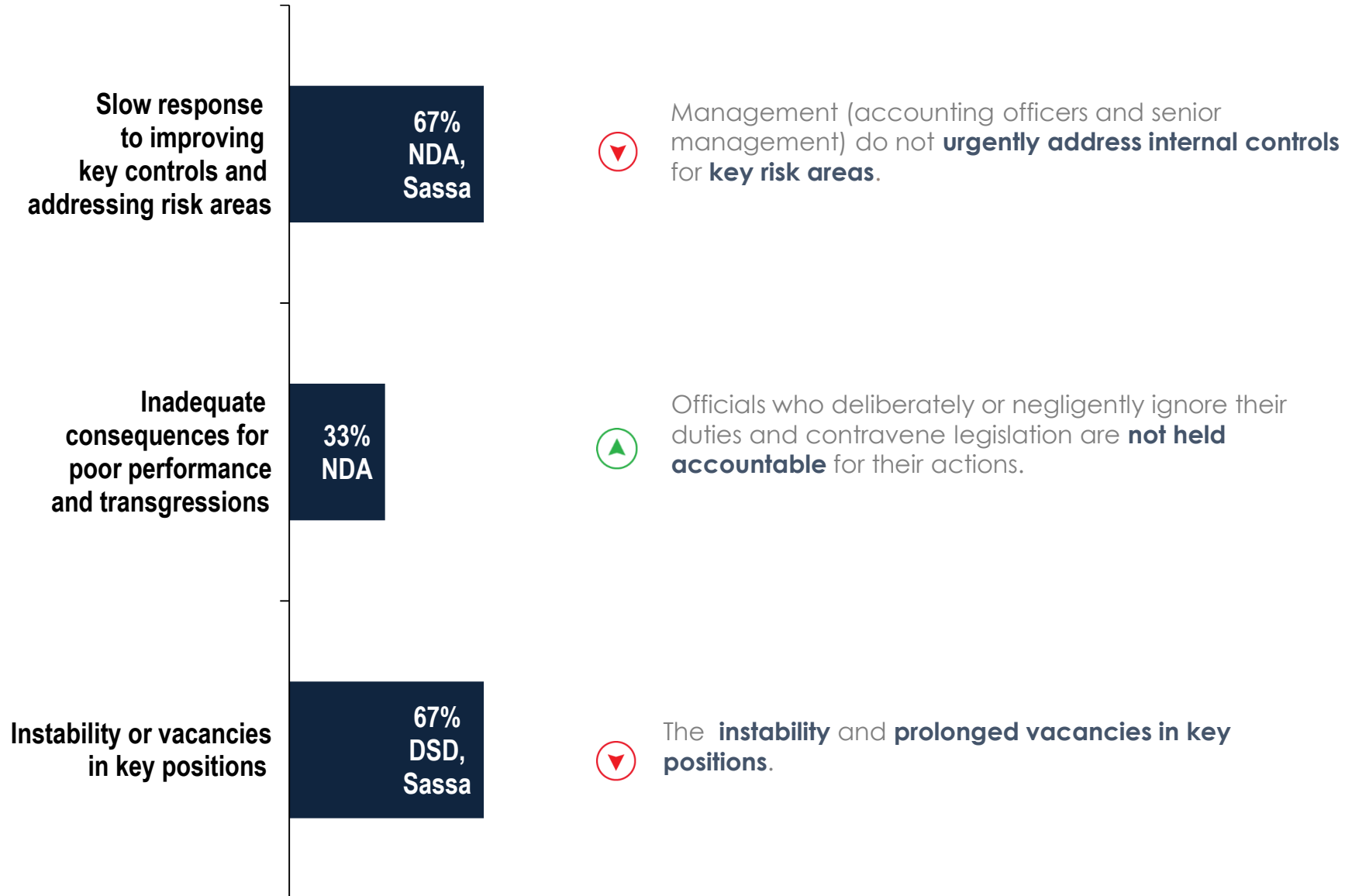
Audit opinions	17-18	16-17	15-16	14-15	13-14
• Disaster relief fund (Small)					
• Refugee Relief Fund (Dormant)					
• Social Relief Fund (Dormant)					
• State President Fund (Dormant)					

AUDIT OPINION LEGEND

	CLEAN AUDIT OPINION: No findings, compliance and PDO is not applicable
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- The audit outcome of the four relief funds remained unchanged from the previous years.
- The going concern assumption has been highlighted in the audit reports as a result of the intention and processes initiated to close the funds. Should the Fund Raising Act be amended resulting in the closure of the funds, the basis of preparation of the annual financial statements must reflect this accordingly in terms of the financial reporting framework.

Root causes



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:

Financial management regressed due to qualification areas of last year still not addressed at Sassa and a regression in the oversight provided over the financial statement preparation at NDA.
Sassa experienced challenges in preparing financial statements that were free from misstatements and NDA had material adjustments made to their financial statements that resulted in a regression in financial management.
Performance management also regressed due to material adjustments made on DSD reported performance information and material findings at NDA and Sassa.
No improvement was made in procurement and contract management with material findings reported at Sassa and NDA.
Compliance regressed in the portfolio with the DSD, Sassa and NDA having material non-compliance.
Vacancies in key positions remained an issue in the portfolio.
Improvement was made at DSD and Sassa an a regression at NDA with regard to the IT environment.
Financial health remained unchanged at Sassa and NDA but regressed at DSD.



Good Of concern Intervention required

Status of key commitments

Status of key commitments

Completed

None – The nature of the commitments made is on-going.

In progress

Monitor the progress and achievement by Sassa, on the plans to implement the new social assistance payment model in terms of the Constitutional Court order.

Monitor the implementation of the audit action plan to address audit findings on financial, compliance and performance reporting.

Monitor the filling of critical vacancies in the portfolio.

Not implemented

None

Recommendations

- PC should request management to provide feedback on the implementation and progress of the action plans to ensure further improvement in the audit outcomes of the portfolio.
- The PC should monitor the progress of filling critical vacancies in the portfolio that arose in the year.
- Monitor the progress and achievement by Sassa on the plans to implement the new social assistance payment model in terms of the Constitutional Court order.

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CAPACITY BUILDING – the work we do

AGSA products:

Audit of financial statements and specific focus areas

Annual financial statements (AFS)

- Required in terms of the Constitution and the Public Audit Act.
- The auditor forms an opinion on whether the financial statements are prepared in all material aspects in accordance with the specific applicable financial reporting framework.
- All material/significant account balances, transactions and disclosures are audited. This includes all individual programme spending and allocations as these amounts form part of the financial statements as a whole (amounts included in programme 1 thus form part of the total expenditure line item in the financial statements being tested).

Audit of predetermined objectives (AOPO)

- Service-delivery issues with focus on the reliability and usefulness of performance information which includes the measurement of targets as set out in the beginning of the financial year, were actually achieved.
- Selection of material programmes based on close link to mandate of the department/entity and service delivery issues (programme 1 regarded mainly as administrative and not in relation to mandate and service delivery).
- We focus on key programs during the audit.

Compliance with laws and regulations

- Reporting on material non-compliance with key legislation in relation to the following subject matter:
 - Annual financial statements and performance reports
 - Revenue, expenditure, asset and liability management
 - Strategic planning and performance management
 - Procurement and contract management
 - Consequence management.



Programme 1

Sub-Programme	Strategic Objective	Performance Indicator	Target	AFS	AOPO	Compliance
Intergovernmental relations and executive support	Ensure effective and efficient decision-making and stakeholder relations by 2019	<ul style="list-style-type: none"> Percentage of Social Protection, Community and Human Development (SPCHD) cluster decisions monitored and reported Number of international engagements facilitated 	<ul style="list-style-type: none"> Monitor and report on 100% of SPCHD cluster Facilitate DSD participation in 8 international engagements 	<ul style="list-style-type: none"> Amounts spent on programme 1 is audited under its respective expense category on the AFS Included as part of the AFS is the appropriation statement per programme which includes virements that we also audit in terms of the compliance with the PFMA and Treasury Regulations 	Not audited under audit of performance information as the administration programme is not a material programme in terms of the departments mandate or service delivery and is already integrated into the financial and compliance audits	As part of compliance we test the virements in terms of section 43 of the PFMA, which includes allowing the accounting officer to transfer amounts not exceeding 8% between divisions within a vote as well as the approval requirements of treasury regulation 6.3.
Strategy development and business	Improve social development sector planning and programme implementation by 2019	<ul style="list-style-type: none"> Information and Knowledge Management Policy 	<ul style="list-style-type: none"> Develop Information and Knowledge Management Policy 			
Gender	To ensure women's empowerment and gender equality through integrating gender into policies, programmes and activities of DSD, SASSA and NDA	<ul style="list-style-type: none"> Number of gender-responsive policies 	<ul style="list-style-type: none"> Facilitate integration of gender into 4 policies 			
Monitoring and evaluation	Improved SDS performance through M&E by 2019	<ul style="list-style-type: none"> Outcomes Based Framework Evaluation reports 	<ul style="list-style-type: none"> Develop M&E tools to measure Outcomes for Social Protection Conduct implementation evaluation of social crime prevention strategy 			
Legal services	Efficient and effective legal services for the DSD	<ul style="list-style-type: none"> Percentage of legally sound contracts vetted within 3 days of receipt of all information 	<ul style="list-style-type: none"> 98% of contracts developed and vetted through the contract management system within 3 days 			

Cont...



Programme 1 (continue)

Sub-Programme	Strategic Objective	Performance Indicator	Target	AFS	AOPO	Compliance
Communications	Improve public access to DSD information and services and sustain employee engagement by 2019	<ul style="list-style-type: none"> Number of public participation events for minister and deputy minister Communication strategies developed 	<ul style="list-style-type: none"> 24 public participation events for the minister, 24 for the deputy minister Develop communication strategy for external, internal and online communication 	<ul style="list-style-type: none"> Amounts spent on programme 1 is audited under its respective expense category on the AFS 	Not audited under audit of performance information as the administration programme is not a material programme in terms of the departments mandate or service delivery and is already integrated into the financial and compliance audits	As part of compliance we test the virements in terms of section 43 of the PFMA, which includes allowing the accounting officer to transfer amounts not exceeding 8% between divisions within a vote as well as the approval requirements of treasury regulation 6.3.
Internal audit	Provide independent assurance and consulting services on risk management, control and governance processes.	<ul style="list-style-type: none"> Number of risk-based projects audited as per the internal audit coverage plan 	<ul style="list-style-type: none"> Audit 26 risk-based projects 	<ul style="list-style-type: none"> Included as part of the AFS is the appropriation statement per programme which includes virements that we also audit in terms of the compliance with the PFMA and Treasury Regulations 		
Human capital management	Ensure adequate capacity, capability and sound employee relations for the department to deliver on its mandate	<ul style="list-style-type: none"> Social SHRP Social Development Academy 	<ul style="list-style-type: none"> Submit SHRP to minister and members of the executive council (MinMec) for approval Establish phase 1 of the Social Sector Academy 			
Finance	To provide proactive strategic and financial support to DSD, enabling delivery of the mandate	<ul style="list-style-type: none"> Unqualified audit report on annual financial statement (AFS) 	<ul style="list-style-type: none"> Unqualified audit report on AFS 			
Information management and technology	To provide proactive strategic and financial support to DSD, enabling delivery of the mandate	<ul style="list-style-type: none"> Integrated social sector-wide ICT service delivery platform 	<ul style="list-style-type: none"> Integrate existing welfare services into the single information case management system 			

Audit of programme 1 – the appropriation statement

The audit of the appropriation statement comprises the testing of the numerical accuracy of the amounts disclosed and verification against the underlying financial records and budget regulations. The compliance audit comprises testing the following specific legislation:

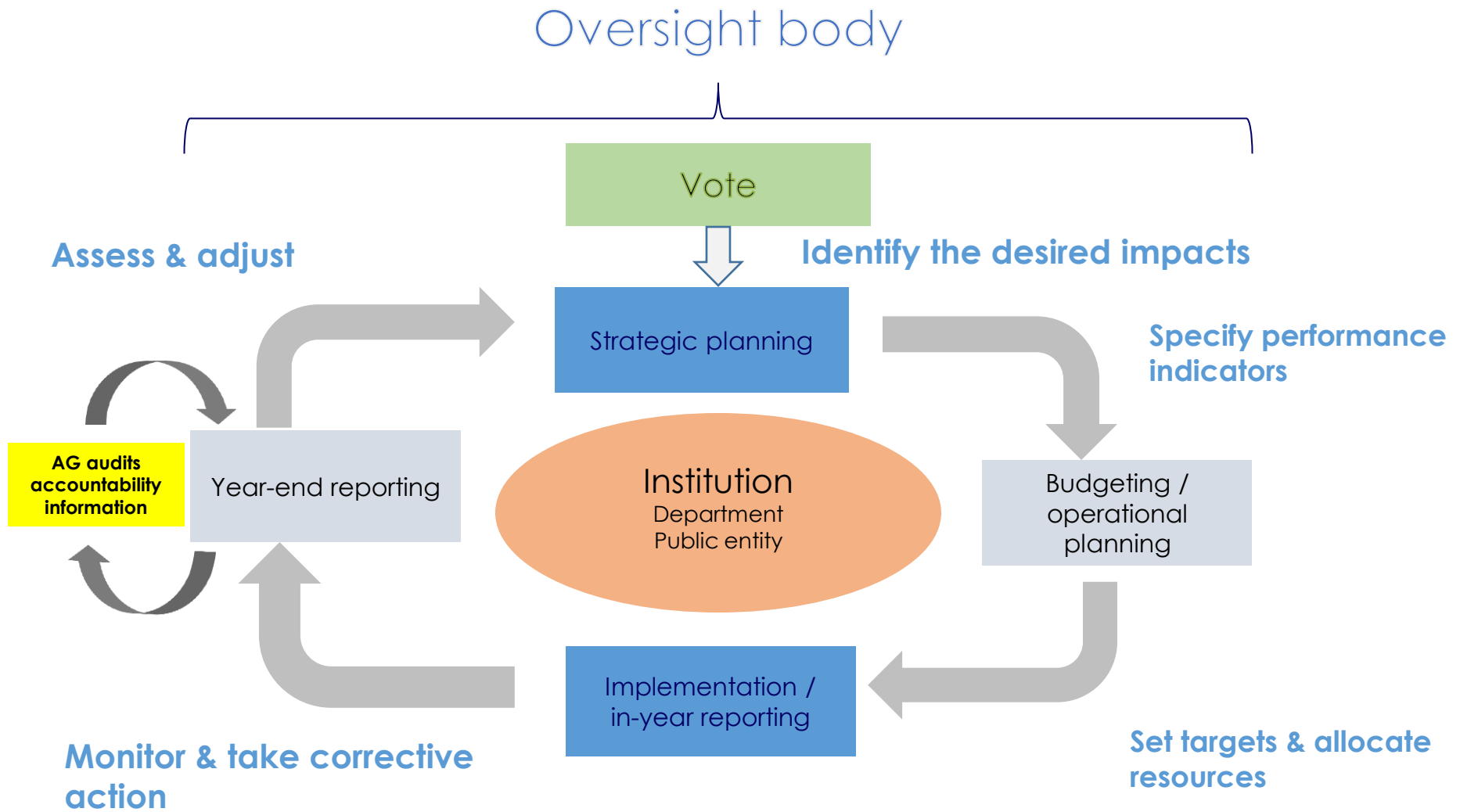
Section	Test
s43 (4) of the PFMA	Savings from the following were not used as virements: a) an amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote b) an amount appropriated for transfer to another institution c) an amount appropriated for capital expenditure in order to defray current expenditure
Treasury regulation 6.3.1(a) & (d)	The budget for compensation of employees and for transfers and subsidies to other institutions, excluding transfers and subsidies to other levels of government for purposes of paying levies and taxes imposed by legislation, was not increased without approval of the relevant treasury
Treasury regulation 6.3.1(b) & (d)	Introduction of new transfers and subsidies to other institutions were approved by the relevant treasury
Treasury regulation 6.3.1(c)	If allocations earmarked by the relevant treasury for a specific purpose (excluding compensation of employees) were used for other purposes, this was approved by the relevant treasury
Treasury regulation 6.4.1	Roll-over of unspent funds is to be used for: a) Capital expenditure, only those funds necessary to finalise a project still in progress, are rolled over b) Transfer payments, savings rolled over must be utilised for the original purpose voted for c) Savings on compensation of employees may not be rolled over. A max of 5% of a departments payments for goods and services may be rolled over
Treasury regulation 6.4.2	The request for the roll over of funds were submitted to the relevant treasury on or before the last working day of April and includes: (a) the purpose for which the funds were appropriated (b) the reasons why the funds were not spent (c) proposed changes to the use of the funds, if any (d) a disbursement schedule indicating the month(s) in which the expenditure is expected to be incurred
Treasury regulation 6.4.3	Inspect the request for roll-over for the last two financial year ends, to ensure that funds intended for a specific purpose were not rolled over for more than one financial year. If this was the case obtain a copy of the relevant treasury approval



5

The role of oversight

Oversight Implementation



Portfolio committee's oversight role

The concept of oversight contains many aspects which include political, administrative, financial, ethical, legal and strategic elements. The functions of oversight are:

- To detect, prevent abuse, arbitrary behaviour or illegal and unconstitutional conduct on the part of the government and public entities. At the core of this function is the protection of the rights and liberties of the citizens.
- To hold the government to account in respect of how the taxpayers' money is used. It detects waste within the machinery of government and public agencies. Thus it can improve efficiency, economy and effectiveness of government operations.
- To ensure that policies announced by government and authorised Parliament are actually delivered. This function includes monitoring of the achievement of goals set by legislation and the government's own programmes.
- To improve the transparency of government operations and enhance public trust in the government, which is itself a condition of effective policy delivery.

In terms of section 201 of the *Rules of the National Assembly* (7th edition), in conducting oversight the committee:

- Must deal bills and other matters falling within its portfolio.
- Must maintain oversight any body or institution in respect of which oversight was assigned to it.
- May monitor, investigate, enquire into and make recommendations into any financial or performance measure, e.g. the committee should request a briefing from the department on the issues/reasons surrounding the virements and transfer of funds from other programmes into programme 1.
- May consult or liaise with any executive organ of state or constitutional institution.
- Must perform any other functions assigned to it by the relevant authorities.





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