



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

Briefing to Portfolio Committee on Public Service and
Administration
10 October 2018



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)*.

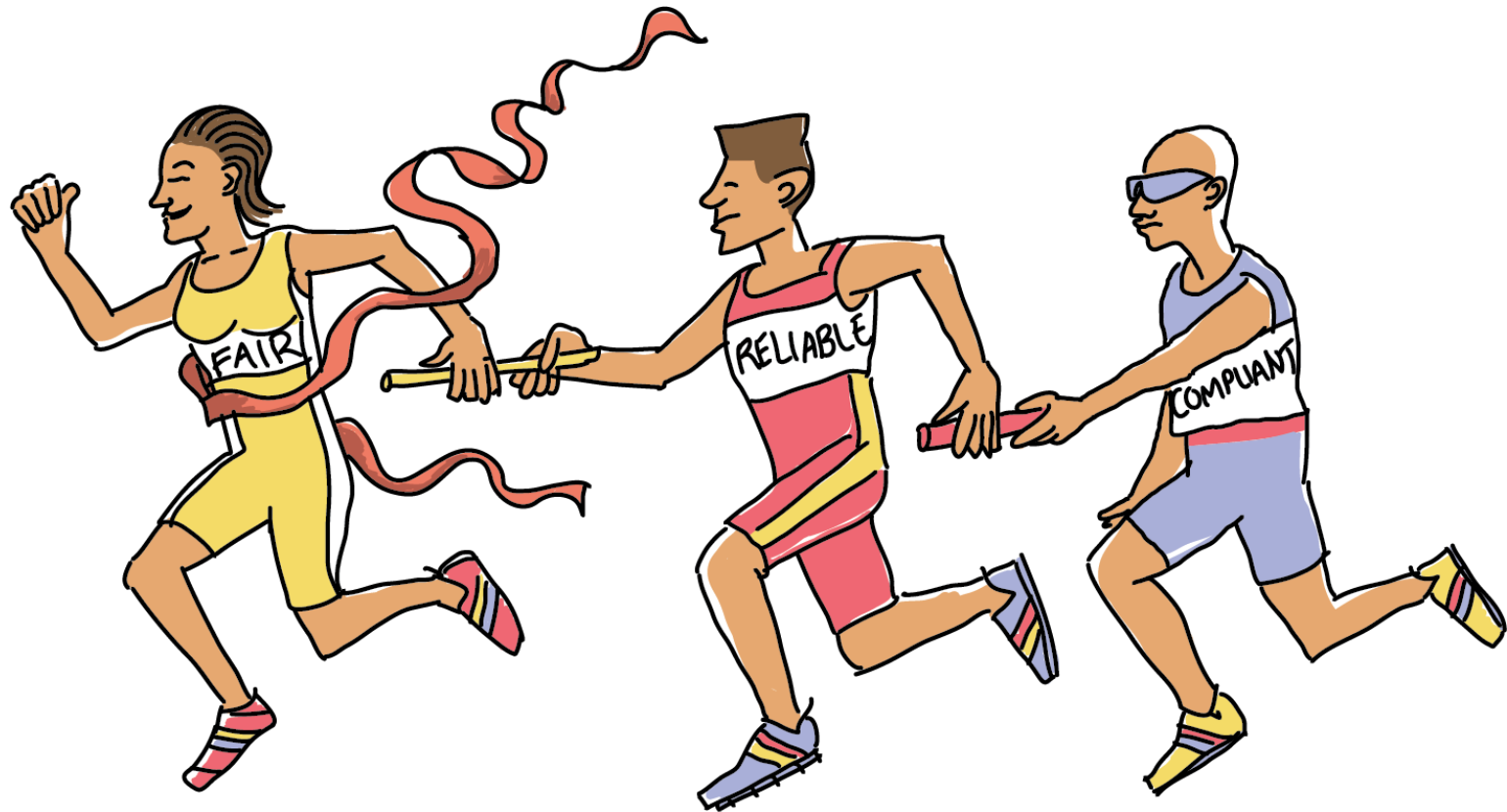


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Our focus



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 5 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

DPSA – Department of Public Service and Administration

PSC – Public Service Commission

CPSI – Centre for Public Service Innovation

NSG VOTE – National School of Government

NSG TTA – National School of Government Trading Entity

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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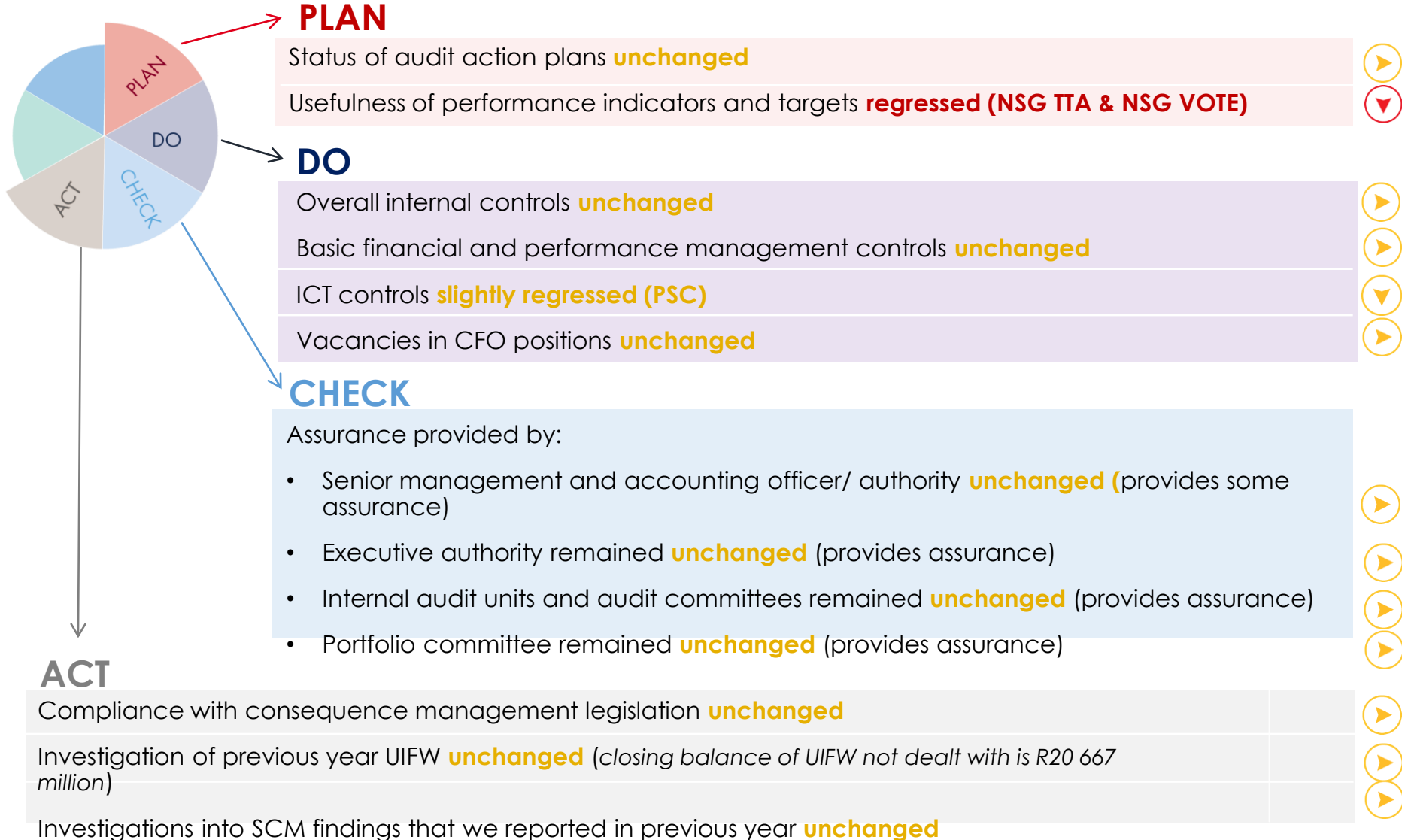
The 2017-18 audit outcomes



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Little improvement in plan-do-check-act cycle



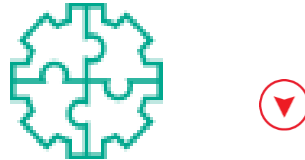
Portfolio snapshot (2017-18)



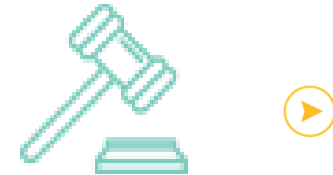
**Clean audits: 20%
CPSI**
(2016-17: 20%
NSG VOTE)



**Quality financial
statements: 100%**
(2016-17: 100%)



**Quality performance
reports: 60% DPSA,
CPSI & PSC**
(2016-17: 100%)

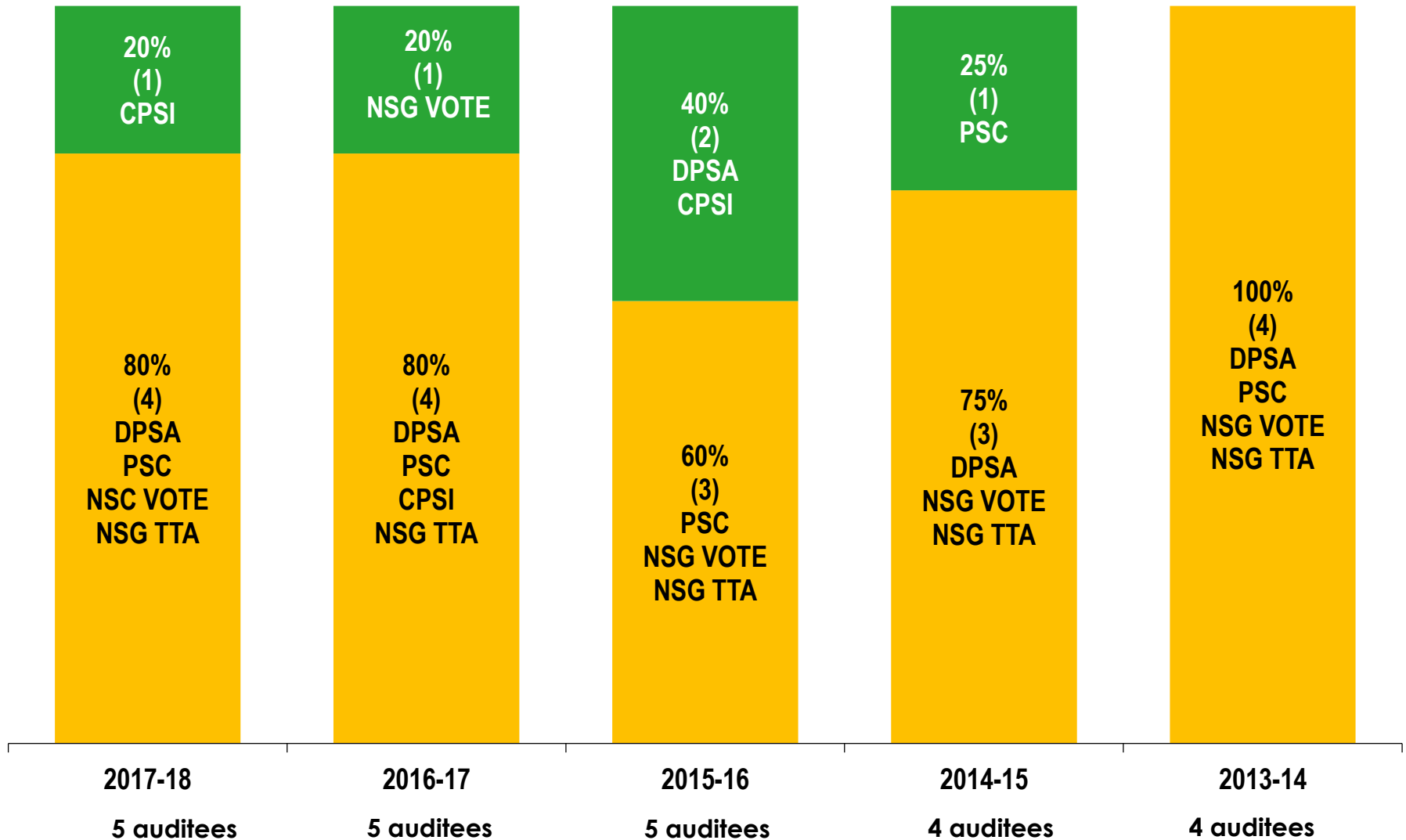


**No findings on compliance
with legislation: 20% CPSI**
(2016-17: 20% NSG VOTE)



**Irregular expenditure:
R7.6m**
(2016-17: R3.7m)

Audit outcomes of portfolio over five years



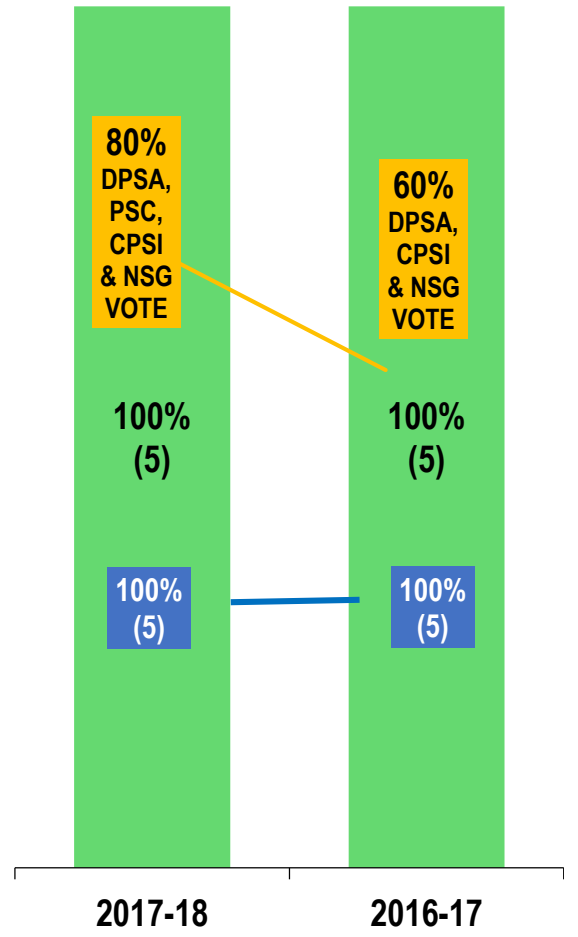
Movement table (2017-18 over 2016-17)

Audit outcome	MOVEMENT				
	1 Improved	3 Unchanged	1 Regressed	0 New auditee	0 + 0 Outstanding audits
Unqualified with no findings = 1	CPSI				
Unqualified with findings = 4		DPSA PSC NSG TTA	NSG VOTE		
Qualified with findings = 0					
Adverse with findings = 0					
Disclaimed with findings = 0					

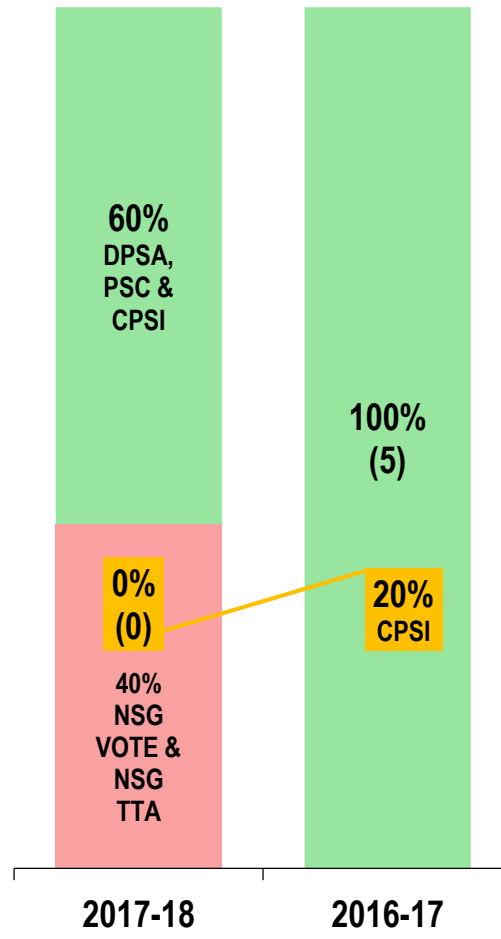
Colour of the number indicates the audit opinion from which the auditee has moved.

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

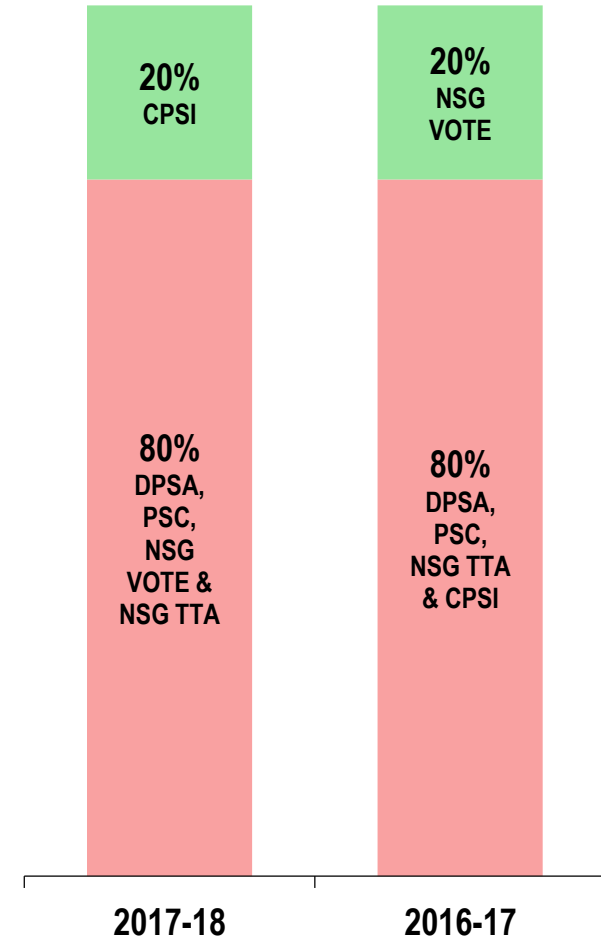
Audit of financial statements



Findings on annual performance reports



Findings on compliance with key legislation



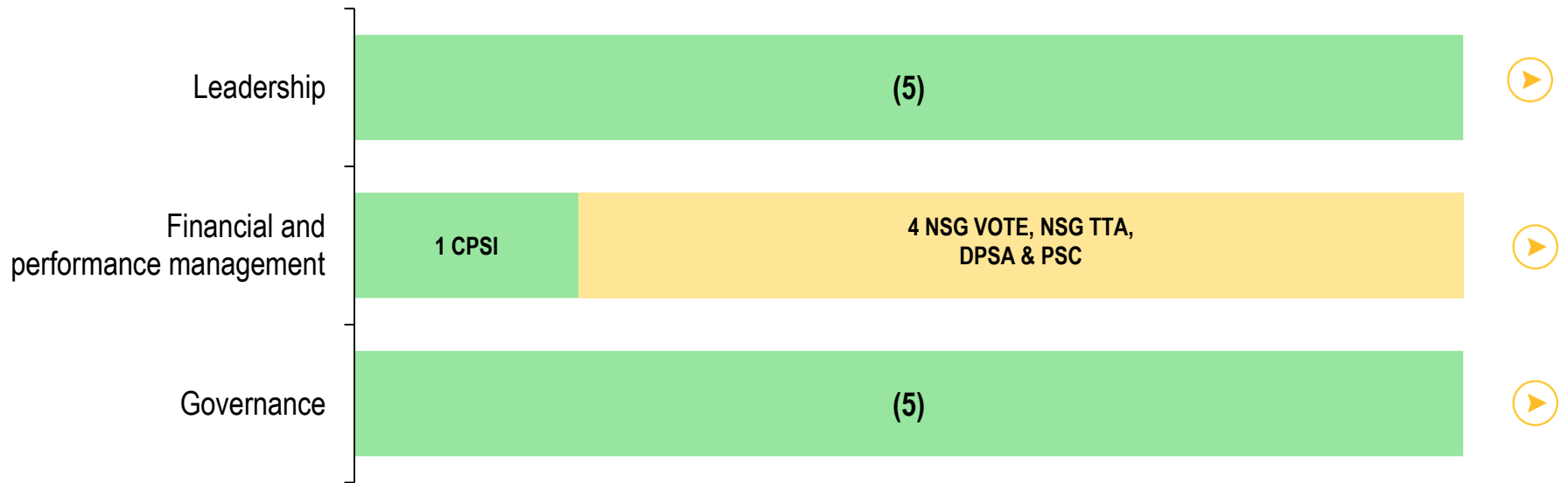
Unqualified Qualified Adverse Disclaimed

— AFS submitted on time

— AFS and APR submitted with no material misstatements

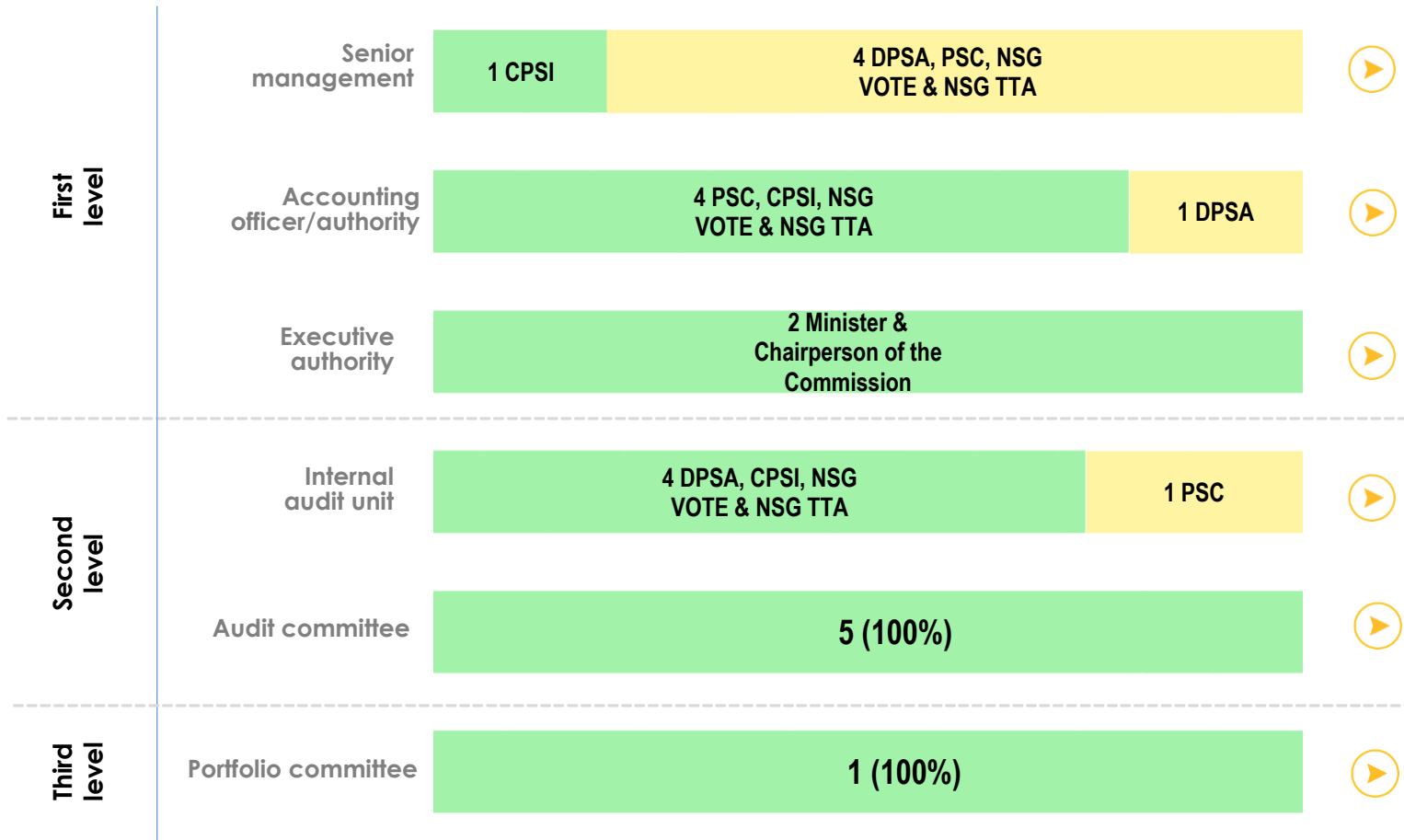
■ With no findings
■ With findings

Status of internal control



Assurance provided

Assurance

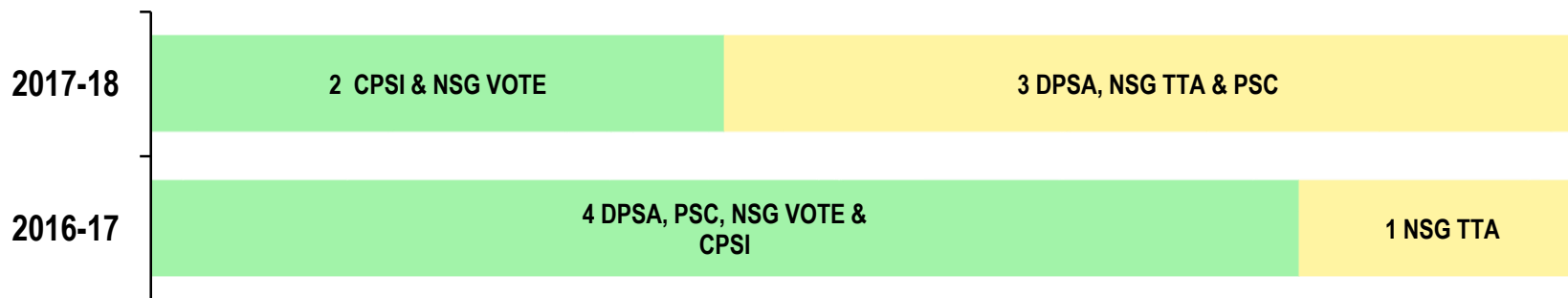


3

Financial health and financial management



Financial health



Key concerns identified

There are no material uncertainty in any of the entities to continue as a going concern.

NSG TTA realised a deficit in the 2017/18 financial year. Furthermore, it has negative cash flows.

DPSA is in a net liability position and this highlights financial challenges and likely liquidity problems.

PSC realised an accrual adjusted deficit in the 2017/18 financial year. Furthermore, accrual-adjusted net liability position was realised (total liabilities exceeded total assets).

- 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



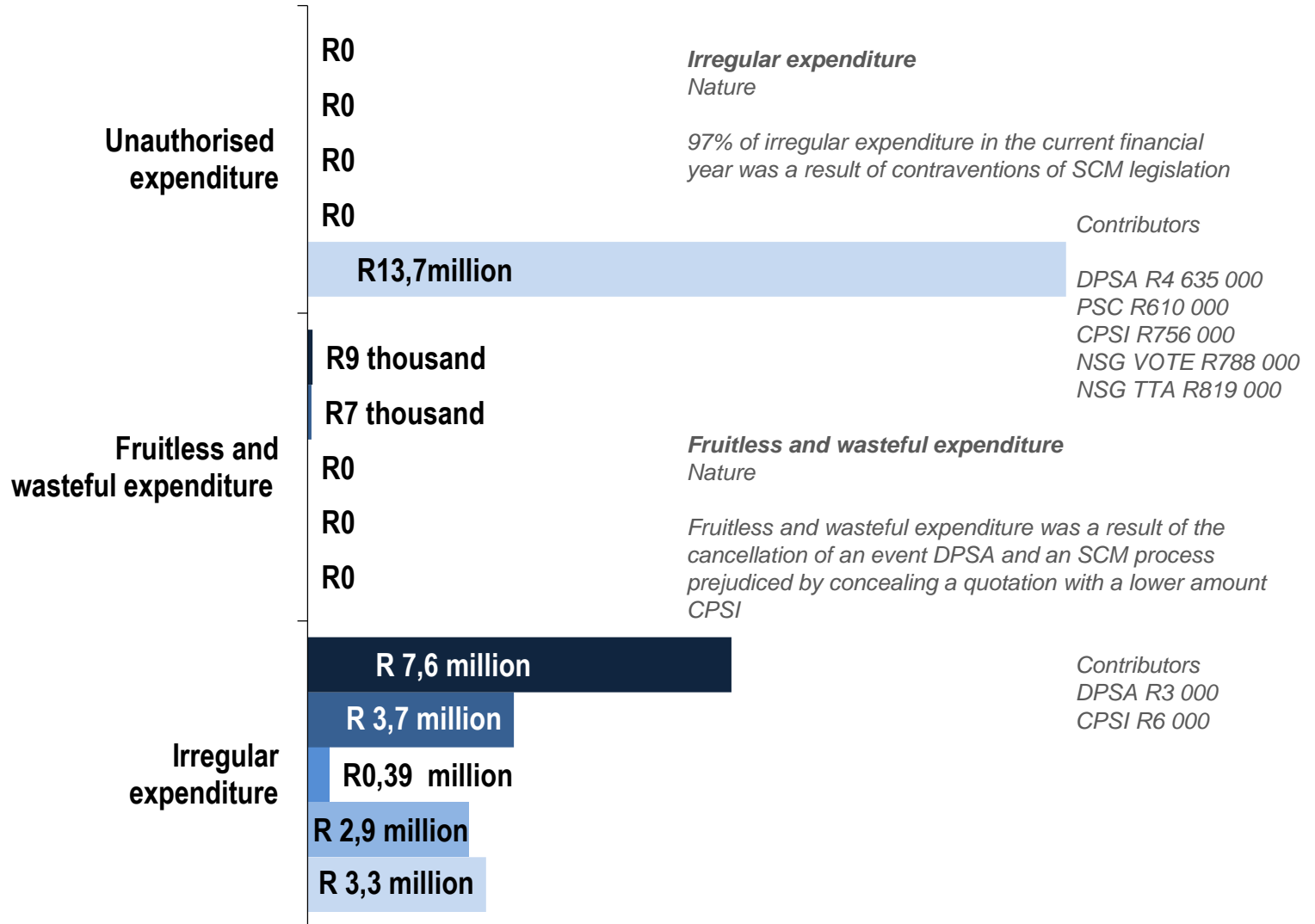
Unauthorised, irregular as well as fruitless and wasteful expenditure decrease over 5 years

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

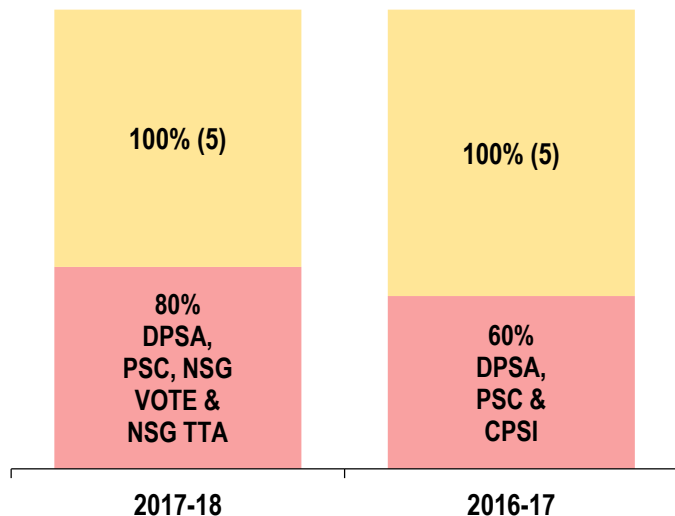


Irregular expenditure and supply chain management

Irregular expenditure increased from R3.7 million to **R7.6 million (more than 100% increase)**

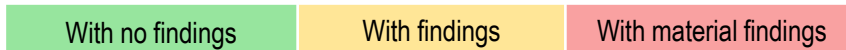
16% (R1.2 million) of the irregular expenditure was payments/expenses in previous years only uncovered and disclosed for the first time in 2017-18

Irregular expenditure incurred in the 2017/18 financial year was due to procurement processes not being followed as well as contracts being extended or modified without the approval of AO/ delegated official. (Refer to the next slide for details of the findings)

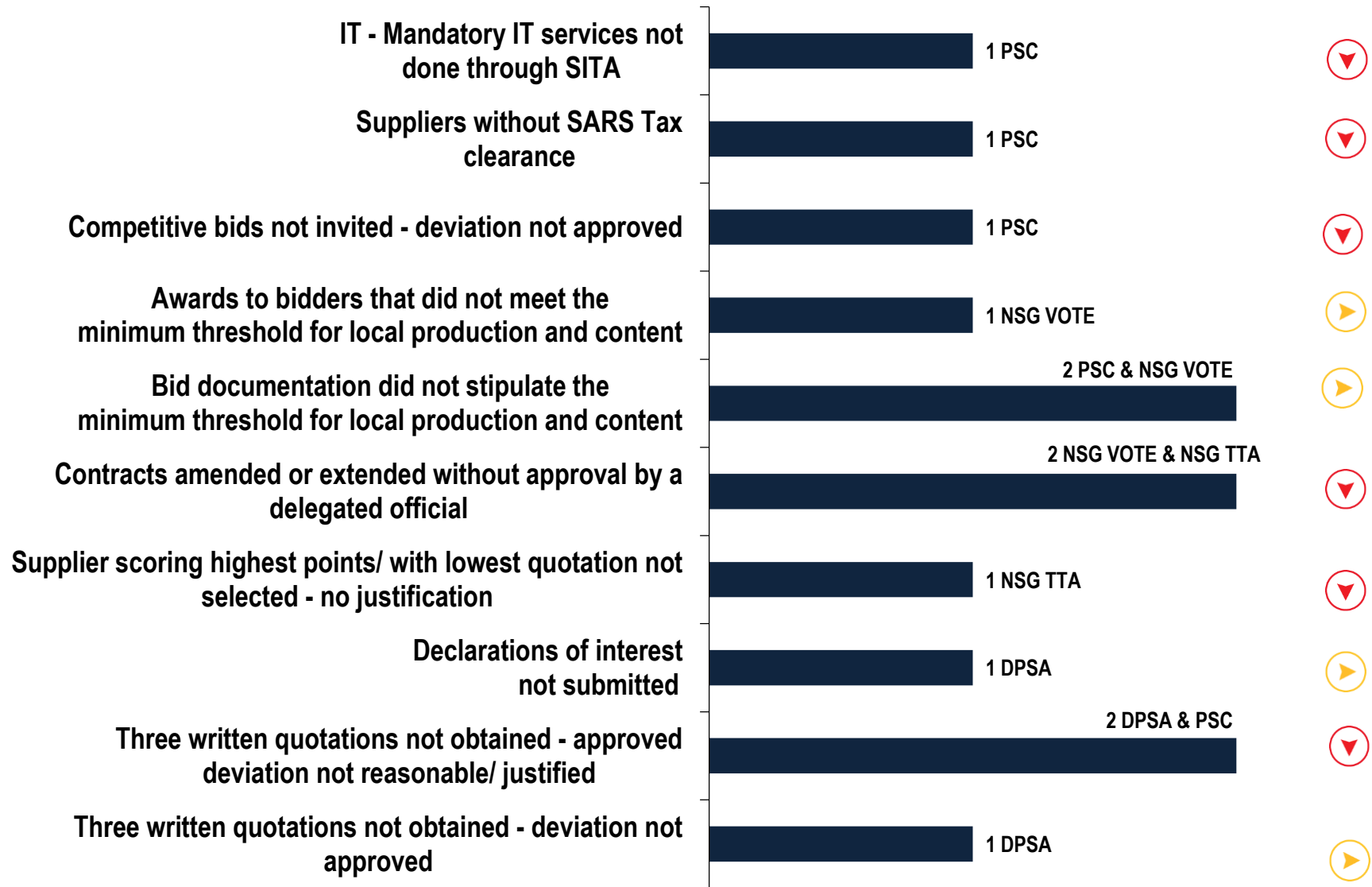


Regression in SCM compliance (2016-17: 40% with no findings)

Uncompetitive and unfair procurement processes at **20% of entities**



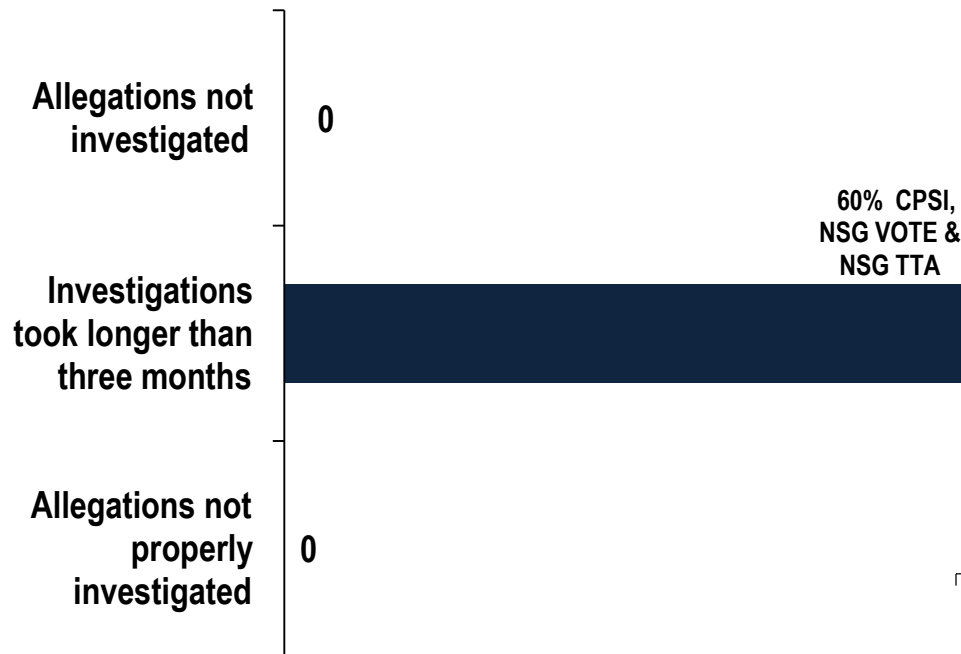
Most common findings on supply chain management



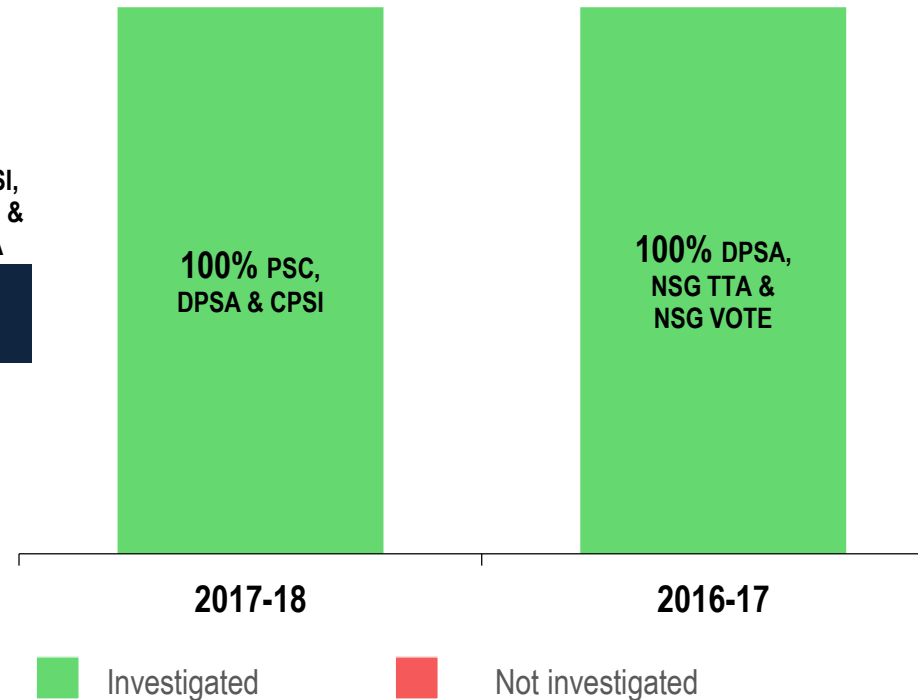
Fraud and consequence management

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

Allegations of financial and/or fraud and SCM misconduct (5 auditees)

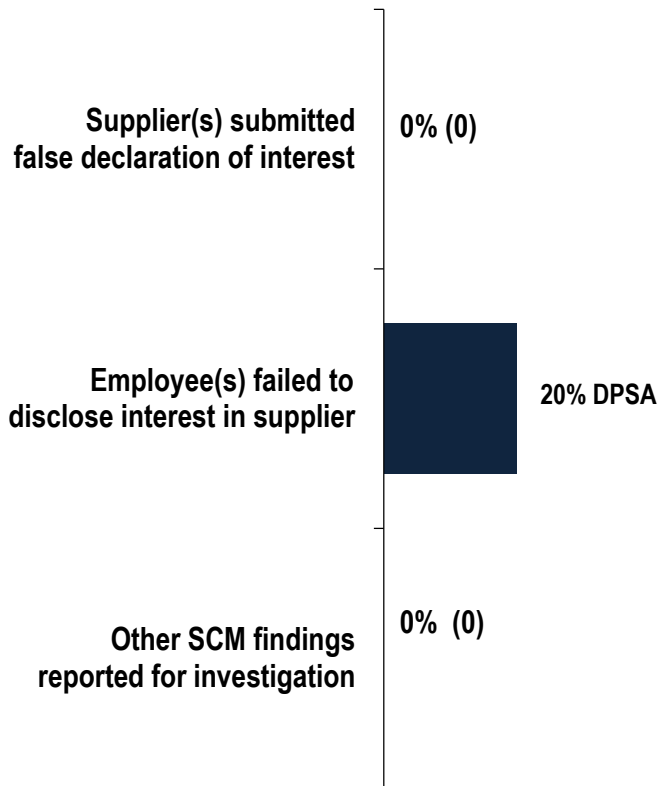


Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation

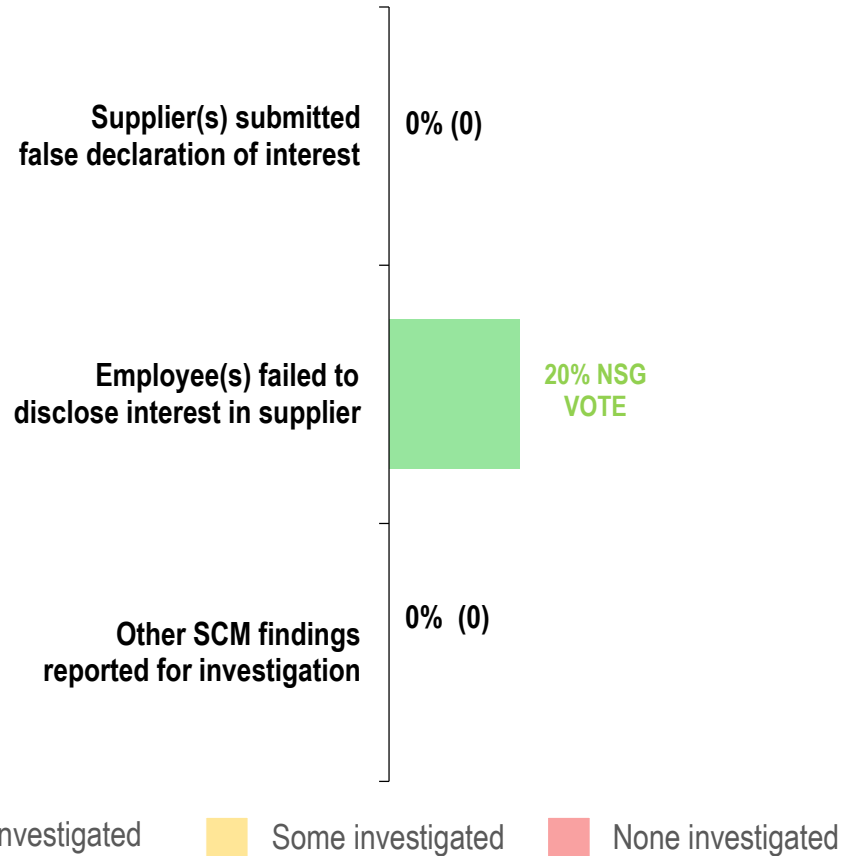


Supply chain management findings reported to management for investigation

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

Slow response to improving key controls and addressing risk areas

40% DPSA & PSC



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

Instability or vacancies in key positions

Inadequate capability of the preparers of annual financial statements and annual performance reports to prepare credible sets

40%NSG VOTE & NSG TTA



Training is not provided on a regular basis to the preparers of the annual performance report as well as financial statements in order to ensure that they are aware of all the requirements and changes in the reporting frameworks.



Recommendations

- There must be timely consequences for officials who deliberately or negligently ignore their duties and contravene legislation. A list of action taken against transgressors must be provided quarterly to PC for follow up of all irregular, fruitless and wasteful expenditure incurred.
- The PC should monitor implementation of commitments by accounting officers / authorities and Executive Authority.
- PC should request management to provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio.





CORRUPTION

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MONOPOLY

DISCRETION

ACCOUNTABILITY



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